

CITY OF VICKSBURG, MISSISSIPPI

Financial Report

Year Ended September 30, 2003

with

Independent Auditor's Reports

**CITY OF VICKSBURG, MISSISSIPPI
FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2003**

TABLE OF CONTENTS

	<u>Page</u>
I. REQUIRED SUPPLEMENTAL INFORMATION (PART A)	
Management's Discussion and Analysis (MD&A)	1
II. BASIC FINANCIAL STATEMENTS	23
Independent Auditor's Report	24
Government-Wide Financial Statements:	26
Statement of Net Assets	27
Statement of Activities	28
Fund Financial Statements:	29
Government Funds:	30
Balance Sheet	31
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Financial Statement of Net Assets	32
Statement of Revenues, Expenditures, and Changes in Fund Balances	33
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	34
Proprietary Funds:	35
Statement of Net Assets	36
Statement of Revenues, Expenses and Changes in Fund Net Assets	37
Statement of Cash Flows	38
Fiduciary Funds:	39
Statement of Fiduciary Net Assets	40
Notes to Financial Statements	41
III. REQUIRED SUPPLEMENTAL INFORMATION (PART B)	61
Budget Comparison Schedules	62
Budget and Actual (with Variances) – General Fund	63
Notes to Budget Information	64
IV. OTHER ADDITIONAL INFORMATION	65
Schedule of Surety Bonds for Municipal Officials	66
Schedule of Expenditures of Federal Awards	67
Summary Schedule of Prior Audit Findings	68
V. INTERNAL CONTROL AND COMPLIANCE	70
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	71
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	73
Schedule of Findings and Questioned Costs	75
Report of Independent Auditor's on Compliance with State Laws and Regulations	77

I. REQUIRED SUPPLEMENTAL INFORMATION (PART A)

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

For the Year Ended September 30, 2003

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, 2003. 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 \$110,775,369 (reported as "net assets"). Of this amount, \$30,542,705 was reported as "unrestricted net assets", which may be used to meet the government's ongoing obligations to citizens and creditors. Governmental activities' net assets decreased during the fiscal year by \$731,604 while business-type activities' net assets decreased by \$1,171,719, resulting in a total net assets decrease of \$1,903,323.

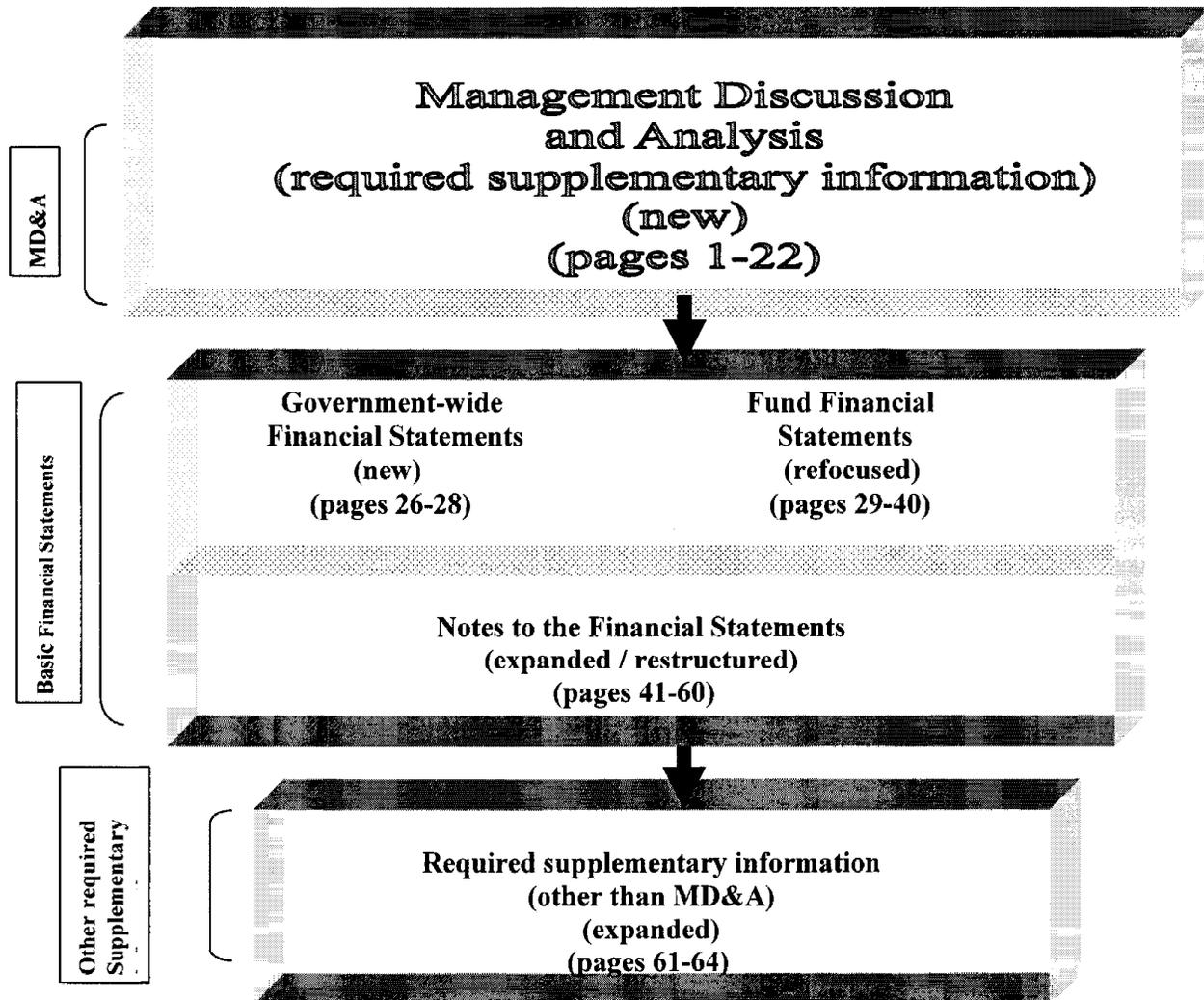
Fund Level - As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$25,708,963, with \$23,023,385 reported as unreserved fund balance. The remaining balance of \$2,685,578 was reserved for specific purposes. The proprietary funds reported total net assets of \$25,747,887.

Long-term Debt - During fiscal year 2003, the City issued debt instruments of \$6,168,500. These debt instruments were issued for utility system capital improvement. The City's total debt rose to \$36,692,641, a net increase of \$1,154,439.

USING THIS ANNUAL FINANCIAL REPORT

A government's presentation of financial statements has greatly changed with the implementation of the new Governmental Accounting Standards Board guidelines. This discussion and analysis serves as an introduction to the City's basic financial statements, which focus on the government as a whole (government-wide), individual funds (fund financials) and the notes to the financial statements. Both perspectives (government-wide and fund financials) allow the reader to address relevant questions, broaden a basis for comparison (year to year or government to government) and should enhance the City's accountability. This report also contains required supplementary information and other supplementary information.

In light of the fact that this is a very different presentation of the City's previous general purpose financial statements, the following graphic is provided for your review.



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

For the Year Ended September 30, 2003

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. These statements consist of the Statement of Net Assets and the Statement of Activities; the later of which is one of the most important items added to the City of Vicksburg's financial report. 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.

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).

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

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

For the Year Ended September 30, 2003

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.
- The final row totals out the activities of the primary government.

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 asst.
- 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 along with one-time item adjustments due to implementing the adoption of the new governmental accounting standards (GASB 34).
- Net assets-ending

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

For the Year Ended September 30, 2003

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.

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.

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

For the Year Ended September 30, 2003

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets Analysis (Table 1):

For the year ended September 30, 2003, the City's combined assets (governmental and business-type activities) totaled \$155.8 million dollars. Government-wide financial statements have not been prepared for the previous year; hence, no comparison can be made to reflect an increase or decrease. Such a comparison will be very helpful in the future, reflecting the City's ability to provide uninterrupted services to the public.

The largest portion of the City's net assets, 70.1% or \$77.6 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. Although the City's investment in capital assets is reported net of related debt, 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 total net assets of the City equaled \$110.7 million dollars after deducting total liabilities of \$45.1 million dollars from total assets.

Restricted net assets, \$2.6 million dollars, represent resources that are subject to externally imposed restrictions. This figure comprises 2.3% of total net assets.

The remaining balance of unrestricted net assets, \$30.5 million dollars, or 27.6% 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.

Major additions were made to governmental activities' capital assets due to the addition to the infrastructure category as required by GASB 34. See Note 6 in the Notes to Financial Statements section.

City of Vicksburg
Table 1
Statement of Net Assets
September 30, 2003
(In Millions of Dollars)

	Governmental Activities	Business-type Activities	Total
Assets			
Current and Other Assets	29.6	10.1	39.7
Capital Assets	85.8	30.3	116.1
Total Assets	115.4	40.4	155.8
Liabilities			
Current and Other Liabilities	7.8	2.6	10.4
Long Term Liabilities	22.6	12.1	34.7
Total Liabilities	30.4	14.7	45.1
Net Assets			
Invested in Capital Assets, Net of Related Debt	60.1	17.5	77.6
Restricted-Debt Service	2.4	.2	2.6
Unrestricted	22.5	8.0	30.5
Total Net Assets	85.0	25.7	110.7

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

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

For the Year Ended September 30, 2003

Statement of Activities Analysis (Table 2):

The total expenses of the City in the amount of \$45.78 million exceeded the total revenues of \$43.87 million by \$1.91 million. The business-type activities of the City accounted for \$1.18 million of this deficiency amount. The governmental activities expenses exceeded revenues by approximately \$732,000. The City transferred approximately \$313,000 from the general fund to the water fund. This \$313,000 accounted for almost half of the \$732,000 deficiency of the governmental revenue shortage.

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

- General government, \$5.61 million, 18 %
- Public safety, \$13.98 million, 45 %
- Public works, \$5.78 million, 19 %
- Culture and recreation, \$3.07 million, 10%
- Health, welfare and sanitation, \$1.10 million, 4%

Included also are interest and fiscal charges with costs of \$1.13 million, representing 4% of the total cost.

The cost of the services provided by the City of Vicksburg is partially paid by the recipient of those services by charging for some or all of its associated cost. Revenues from charges for services totaling \$16.42 million are primarily in the business-type activities, which include 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 cost is 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:

- Property taxes, \$8.33 million, 33%
- Franchise taxes, \$8.79 million, 35%
- Public service taxes total, \$6.47 million, 26%

The final 6% of revenues comes from the sale of assets, interest earnings and other miscellaneous sources. See Table 3 titled "Government Wide Revenues" on page 10 of the MDA.

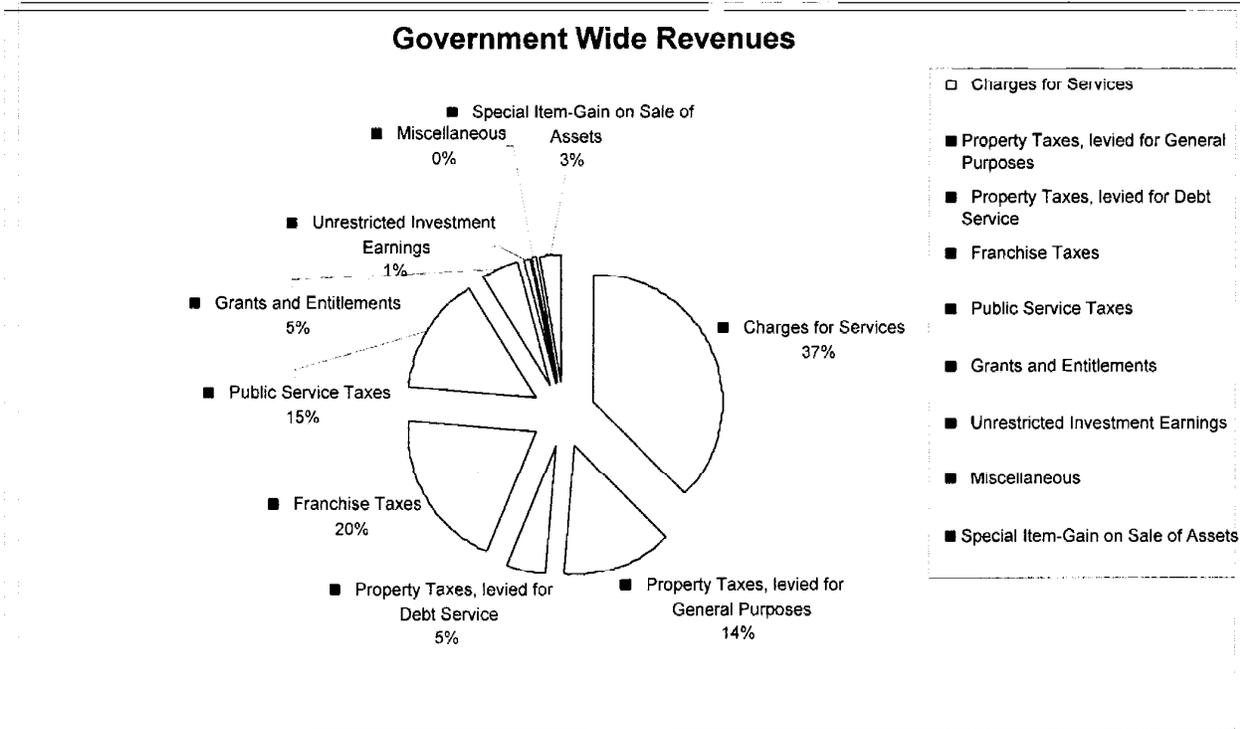
City of Vicksburg
Table 2
Statement of Activities
For the Year Ended September 30, 2003
(In Millions of Dollars)

	Governmental Activities	Business-type Activities	Total
Revenues			
Program Revenues			
Charges for Services			
Governmental Activities	3.04		3.04
Water Utility		3.23	3.23
Gas Utility		5.65	5.65
Sewer Utility		3.24	3.24
Refuse, Sanitation Fund		1.26	1.26
Operating Grants and Contributions	1.45		1.45
Capital Grants and Contributions	.45	.10	.55
Total Program Revenues	4.94	13.48	18.42
General Revenues:			
Property Taxes, levied for General Purposes	6.08		6.08
Property Taxes, levied for Debt Service	2.25		2.25
Franchise Taxes	8.79		8.79
Public Service Taxes	6.47		6.47
Grants and Entitlements not Restricted to Specific Programs	.03		.03
Unrestricted Investment Earnings	.34	.04	.38
Miscellaneous	.18		.18
Total General Revenues	24.14	.04	24.18
Total Revenues	29.08	13.52	42.60
Functions/Programs Expenses:			
General Government	5.61		5.61
Public Safety	13.98		13.98
Health, Welfare and Sanitation Services	1.10		1.10
Public Works	5.78		5.78
Education	.10		.10
Culture and Recreation	3.07		3.07
Interest and Fiscal Charges	1.13		1.13
Total Business Related Expense		15.01	15.01
Total Expenses	30.77	15.01	45.78
Decrease in Net Assets before Transfers and Special Items	(1.69)	(1.49)	(3.18)
Special Item-Gain on Sale of Assets	1.27		1.27
Transfers	(.31)	.31	0
Change in Net Assets	(.73)	(1.18)	(1.91)

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

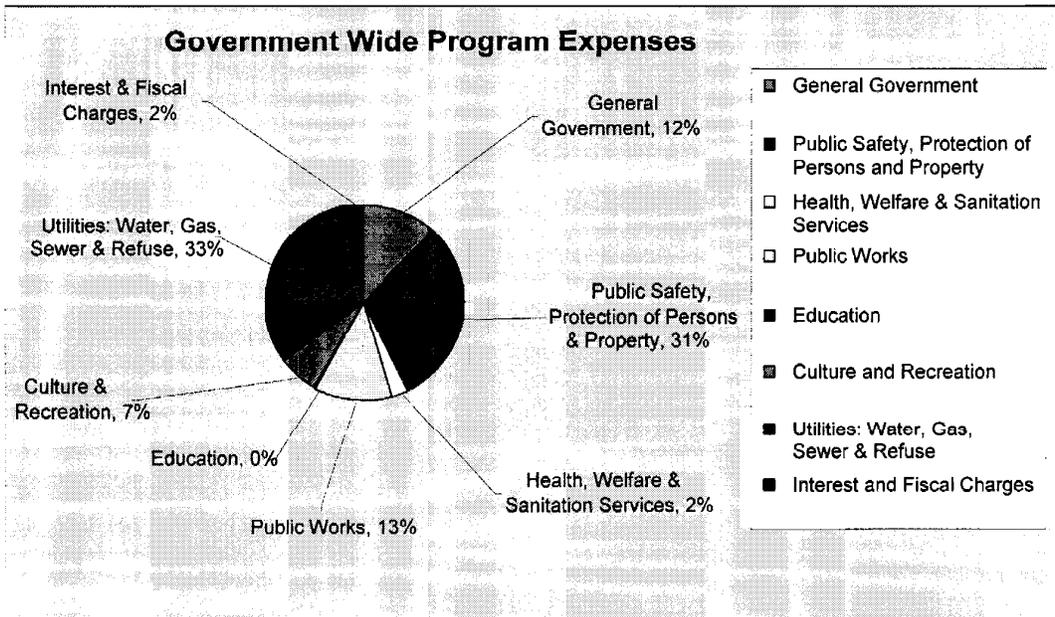
City of Vicksburg
Table 3
Government Wide Revenues
For the Year Ending September 30, 2003

<u>Types of Government Wide Revenues</u>	<u>Revenues</u>	<u>Percent</u>
Charges for Services	16,424,319	37.43%
Property Taxes, levied for General Purposes	6,083,167	13.86%
Property Taxes, levied for Debt Service	2,245,815	5.12%
Franchise Taxes	8,790,680	20.04%
Public Service Taxes	6,473,702	14.75%
Grants and Entitlements	2,027,474	4.62%
Unrestricted Investment Earnings	377,501	0.86%
Miscellaneous	179,245	0.41%
Special Item-Gain on Sale of Assets	1,273,962	2.90%
Total Government Wide Revenues	43,875,865	



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

<u>Functions/Programs Expenses</u>	<u>Expenses</u>	<u>Percent</u>
General Government	5,613,921	12.26%
Public Safety, Protection of Persons and Property	13,977,220	30.53%
Health, Welfare and Sanitation Services	1,099,929	2.40%
Public Works	5,780,291	12.63%
Education	95,013	0.21%
Culture and Recreation	3,067,051	6.70%
Utilities: Water, Gas, Sewer and Refuse	15,013,420	32.80%
Interest and Fiscal Charges	1,132,343	2.47%
Total Expenses	45,779,188	



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

For the Year Ended September 30, 2003

THE CITY'S FUNDS ANALYSIS

General Fund Budgeting Highlights (See page 62)

The City amended the budget several times during the year. The final revenue budget \$25.07 million and the actual collections totaled \$25.17 million. The major change for the General Fund budgeted revenue was the reduction of the estimate for total fines to be collected. The reduction amounted to \$200,000 due to a new debt collection agency not having been selected and the allowance for fines that are reduced in exchange for community work.

The intergovernmental revenue category included \$1 million for an anticipated street improvement and major traffic light improvement project to be funded by a Surface Transportation Improvement Program Fund (STIPF) grant through the Mississippi Department of Transportation (MDOT). The traffic light project was scaled back and the street improvement project was not started. The funds allocated to the City of Vicksburg by MDOT are still available to the City for other projects. The capital outlay expenditure category reflects the funds as unexpended.

The \$35,176 variance in the General government expenditure category is due to the under estimation of accrued expenses for the last month of the fiscal year. (See required supplemental information Budget Comparison Schedule (page 62). In addition, the variance in the Public Safety expenditure category relates to money allocated for personnel positions that were not filled during the fiscal year.

The variance in proceeds from capital leases was due to a lease financing agreement being delayed and the lease funds were received in the year ended September 30, 2003, rather than in the 2002 fiscal year.

The final amended General Fund expense budget totaled 31.84 million dollars.

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 GASB 34 is in the recording of infrastructure such as roads, bridges, sidewalks and other non-building improvements such as ball-fields, playgrounds, etc. A separate fixed asset inventory record is now maintained for each item of capital asset. Prior to the implementation of the new reporting model, no depreciation was charged on

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

For the Year Ended September 30, 2003

Capital Assets-Continued

general capital assets. Accumulated depreciation was recorded for the first time 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 plans to record all easements in the next two fiscal years.

For the year ended September 30, 2003, governmental activities capital assets totaled \$142,513,968 with accumulated depreciation of \$56,703,076 leaving a net capital assets balance of \$85,810,892.

Business-type activities capital assets for year ended September 30, 2003 totaled \$54,557,636 with total accumulated depreciation of \$24,227,658 leaving a net business-type capital assets balance of \$30,329,978.

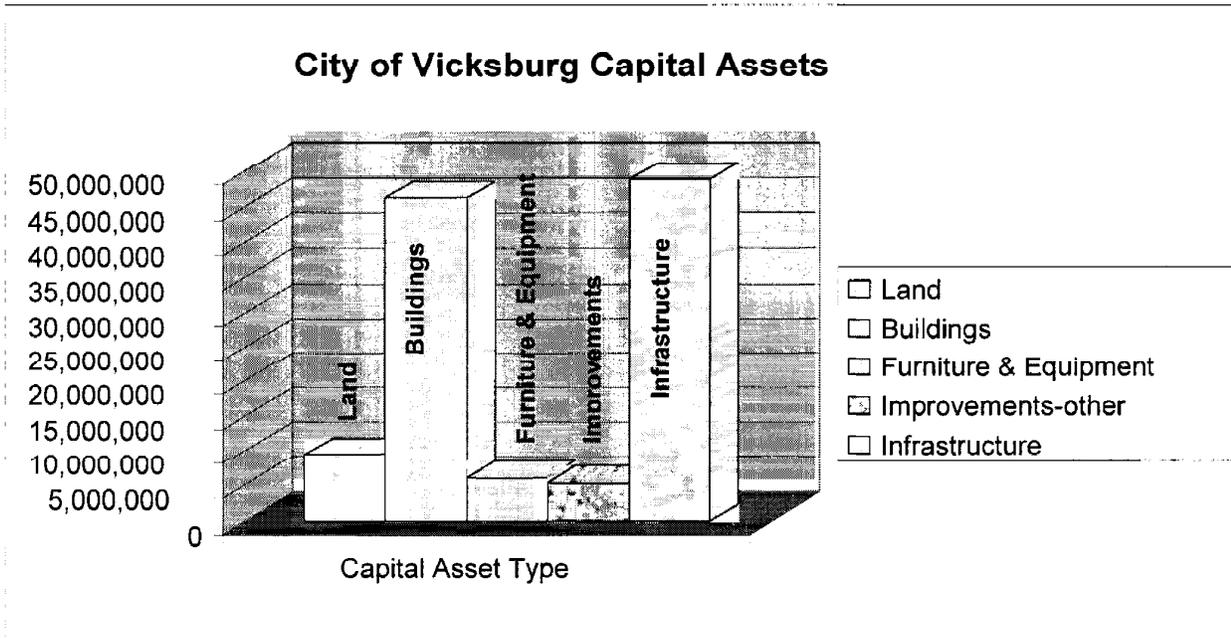
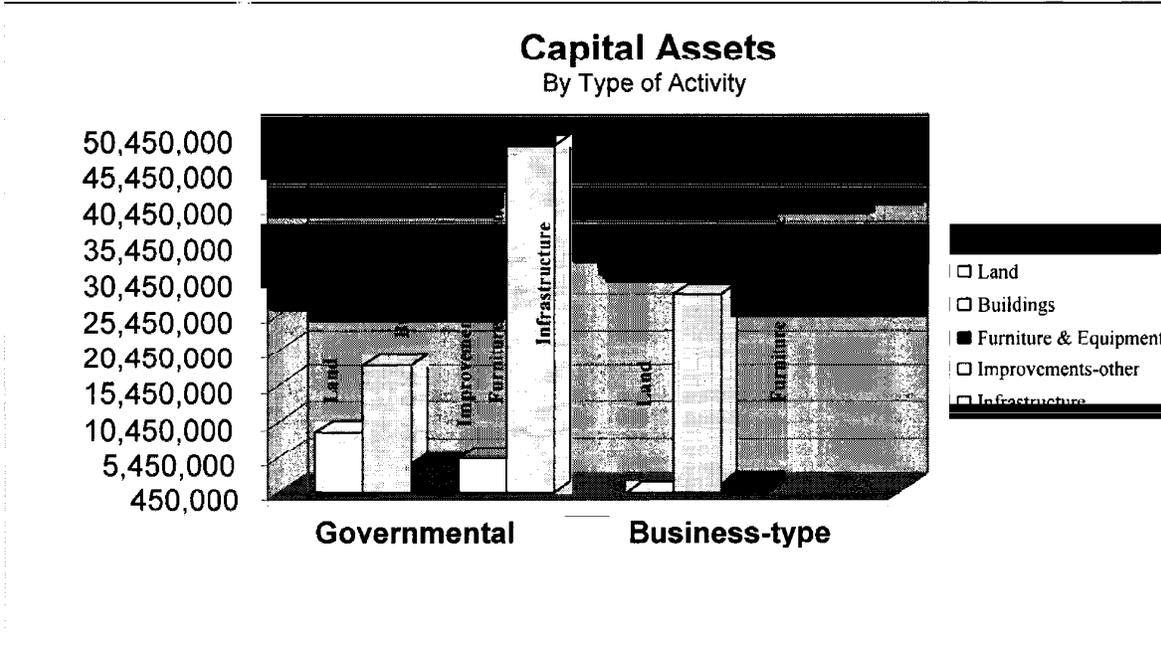
See Note 6 of the "Notes to Financial Statements", for a breakdown of the individual categories with its beginning balance, additions, retirements and ending balance.

**City of Vicksburg
Capital Assets, Net of Depreciation
September 30, 2003**

	Governmental Activities	Business-Type Activities	Total
Land	9,046,968	473,130	9,520,098
Buildings (includes Construction in Progress)	18,075,866	28,170,357	46,246,223
Furniture and Equipment	4,388,422	1,686,491	6,074,913
Improvements Other than Buildings	5,388,342	0	5,388,342
Infrastructure	48,911,294	0	48,911,294
Total Capital Assets	85,810,892	30,329,978	116,140,870

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

For the Year Ended September 30, 2003



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

For the Year Ended September 30, 2003

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 thirty nine million, eight hundred and thirty-nine thousand dollars (\$39,839,000). At fiscal year ended, September 30, 2003, bonds issued by the City, subject to the fifteen percent (15%) debt limit, was \$25,280,000.

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, 2003, the twenty percent (20%) limit for the City of Vicksburg was fifty three million, one hundred and eighteen thousand dollars (\$53,118,000). The City's total outstanding bonds, subject to this overall debt limit, were twenty seven million, one hundred and fifty thousand dollars (\$27,150,000). The City of Vicksburg has the ability to issue an additional amount of twenty five million, nine hundred and sixty-eight thousand dollars (\$25,968,000). This figure represents forty nine percent (49%) of the City's total bonding capacity.

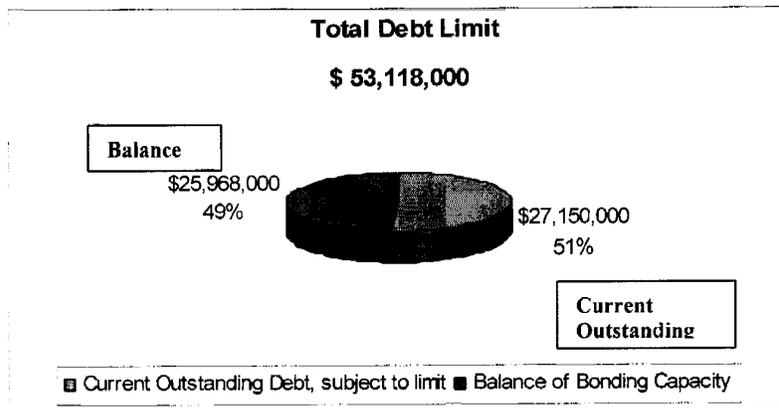
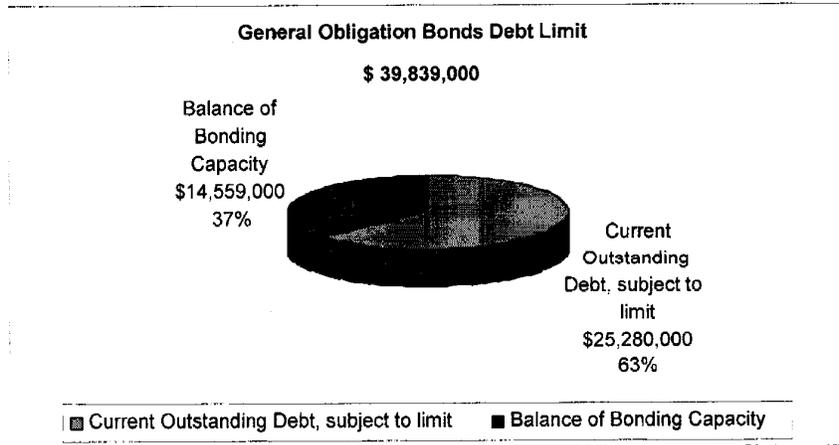
See Note 7 of the "Notes to Financial Statements", for more detailed information about our long-term liabilities.

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

For the Year Ended September 30, 2003

**Statutory Debt Limits
September 30, 2003**

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



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

For the Year Ended September 30, 2003

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 \$1.87 million.
- The 1996 issue in the amount of \$10 million was used to construct the convention center, outstanding \$3.56 million.
- The 2001 issue for \$17.5 million is being used for downtown redevelopment, recreation facilities, street improvements, sidewalk and landscaping improvements, outstanding \$16.04 million.
- The 2003 issue for \$5.8 million will be used for water, gas and sewer improvements, outstanding \$5.8 million.
- 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, outstanding \$800 thousand.

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 three Tax Increment Financing (TIF) bonds between 1991 and 1999. The outstanding balance for all three of the issues is \$1.6 million.

State Loans

The City made three state loans in 1995, 1996 and 2003 for sewer improvements with a total outstanding balance of \$4.5 million.

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

For the Year Ended September 30, 2003

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, 2003 is \$586 thousand.

Future Long Term Obligation

The City is in the process of refunding the 1994 Water Revenue bonds. Plans are to refund the revenue issue with general obligation bonds, which will remove the restrictions on debt reserves.

The City has adopted 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 has pledged to issue up to \$900 thousand to make necessary infrastructure improvements.

The State of Mississippi has approved 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 in the process of acquiring the necessary easements for the projects and submitting for approval the final plans and specifications to the Mississippi Department of Environmental Quality. The loan amount is \$4.2 million at 1.75 % interest, which does not accrue until all of the projects are completed. The projected completion date and the repayment start date is November 2005.

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

	Governmental Activities	Business- Type Activities	Total
General Obligations Bonds	21,466,962	5,800,000	27,266,962
Revenue Bonds		1,890,000	1,890,000
State Loans		5,125,679	5,125,679
Tax Increment Financing (TIF) Bonds	1,610,000		1,610,000
Mississippi Business Investment Administration Bonds	800,000		800,000
Total Long Term Obligations	23,876,962	12,815,679	36,692,641

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

For the Year Ended September 30, 2003

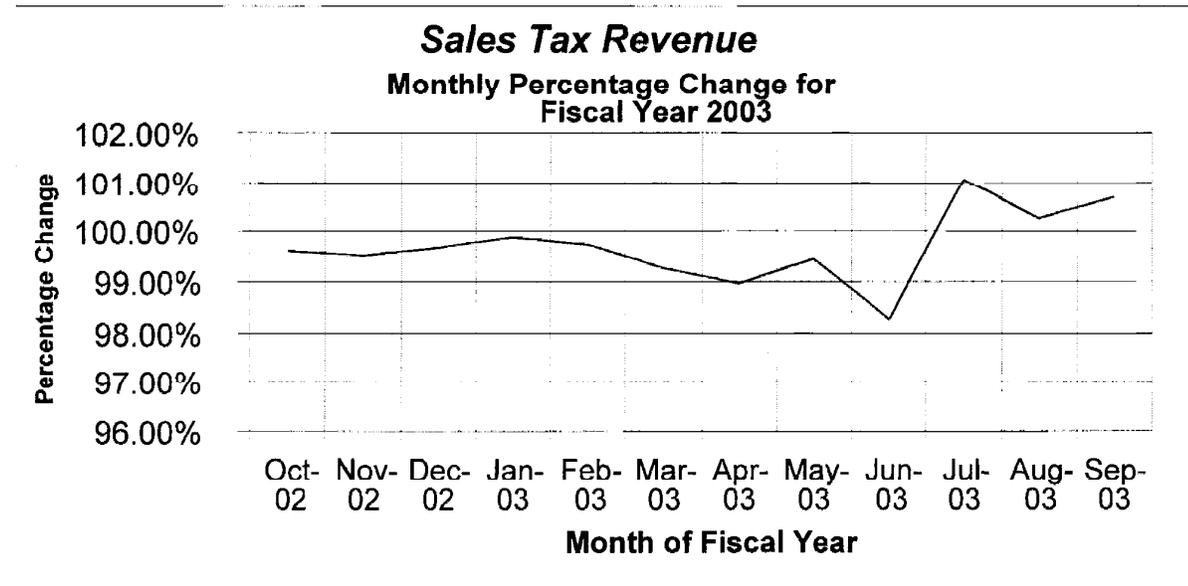
Revenue section highlights

General revenues, net of transfers for the governmental funds totaled \$28.8 million for the fiscal year. The Bond and Interest Fund income for the year was \$4.7 million in taxes, interest earnings, and transfers. The City transferred \$2.5 million from the General Fund to the Bond and Interest Fund. At the end of each fiscal year, the City evaluates the General Fund's fund balance and if feasible; the amount necessary to pay the next fiscal year's 2001 Public Improvement Bond debt is appropriated to the Bond and Interest Fund, rather than increasing taxes. The other funds of the Governmental Funds revenues totaled a combined \$1.35 million.

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

Three Largest Revenue Groups	Millions	Percent
Gaming taxes and use of City property by a casino	\$7.7	30.5%
Sales taxes 18.5% of the state 7% sales taxes on sales in City	\$6.4	25.4%
Property taxes: real estate, business, public utilities, auto	\$6.1	24.2%

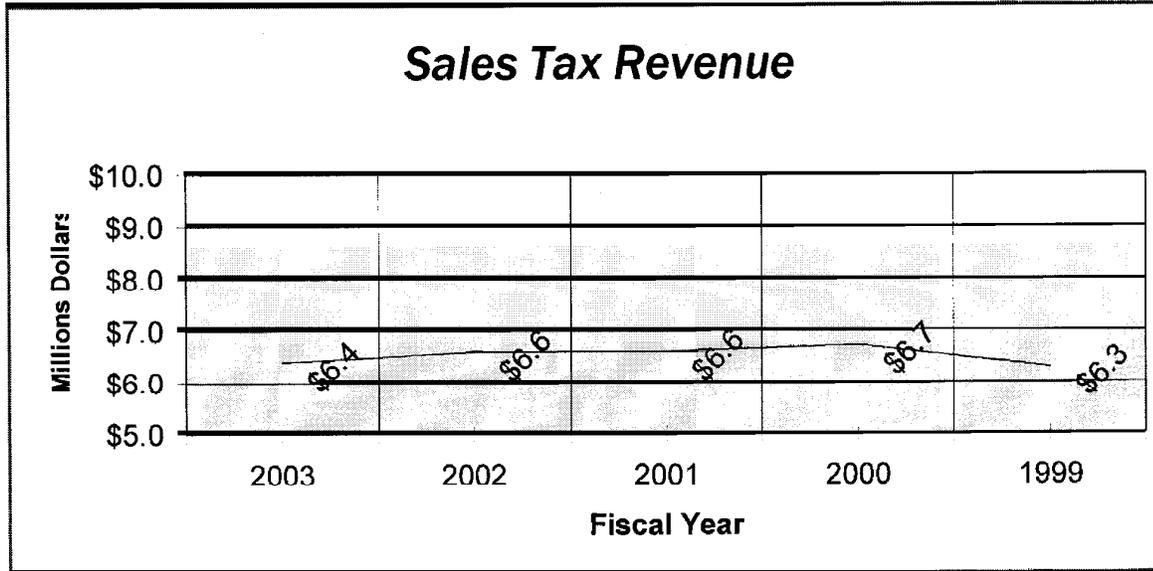
In July of 2003, sales tax receipts reversed its downward trend, which had started in August of 2002. The following chart shows the percentage change by month for the preceding twelve months sales tax collections for the year ending September 30, 2003:



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

For the Year Ended September 30, 2003

Sales tax revenue for the past five years:



Utility System Revenues

In January 2003, the City implemented utility rate increases at fifteen percent (15%) for water and twelve percent (12%) for gas. The new water rates impose higher minimum rates for customers with larger meters, which will improve revenues.

The City is also currently in 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.

Prospects for the future of the Water and Gas Funds are positive with the current actions taken through these projects.

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

For the Year Ended September 30, 2003

Capital Improvements

In 2001, the City of Vicksburg issued seventeen and a half million (\$17.5 million) dollars in bonds. With this bond issue, the City continues today to make capital improvements through major projects including Downtown Urban Renewal, City Street Repaving, Landscaping, Sidewalks and Recreation.

The Downtown Revitalization Project is 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 major changes include a new layer of asphalt topped with brick covering the street, concrete sidewalks, new lighting, signage and landscaping.

Resurfacing of City streets is forefront in this administration's agenda seeking to not only manage ever changing surface conditions but also to invest in minimizing damage claims occurring due to an overall aging road surface. The City is committed to protecting this community's long term financial resources, as well as providing for safe routes to and from work, school, shopping, church and recreation.

The current administration is investing, with the use of bond issues, in capital improvements to landscape main corridors and scenic routes throughout the City, as well as, major capital improvements to sidewalks along routes sightseeing tourist most frequently walk during visits to local museums and shops. Additionally, the major capital improvement investments of this bond issue for sidewalks and landscaping also include old neighborhoods of Vicksburg encouraging an influx within the community from the county, as well as seeking new residents for this retirement community.

Major capital improvements, using bond issue money, are also allocated for recreation, such as new softball and soccer fields, allowing for the expansion of facilities in one multi-sport location. This will aid City residents, both youth and adults, by cutting down on travel from one location to the next and facilitate in minimizing the escalating cost of maintenance.

Current capital improvement project areas and allocated dollars are as shown below:

Downtown:	\$10.8 million
Streets:	\$ 4.3 million
Landscaping and Sidewalks:	\$ 1.4 million
Recreation:	\$ 1.0 million

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

For the Year Ended September 30, 2003

Capital Improvements-Continued

The current administration has chosen not to increase City taxes for repayment of this bond issue but instead to repay this loan by using general fund surplus dollars. This decision is subject to change by annual evaluation of the City's financial status.

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



May & Company

A Limited Liability Partnership

WE BRING EXCELLENCE AND INNOVATION TO THE EQUATION

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, 2003, 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, 2003, 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.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis for State and Local Governments*, as of September 20, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 1 through 22 and 61 through 64, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

110 MONUMENT PLACE • POST OFFICE BOX 821568 • VICKSBURG, MISSISSIPPI 39182-1568 • TELEPHONE (601) 636-4782 • FAX (601) 636-9476
email: info@maycpa.com • website: www.maycpa.com

Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Vicksburg, Mississippi's basic financial statements. The 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. Such information 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.

A handwritten signature in cursive script that reads "May Company". The signature is written in black ink and is positioned above the typed name and date.

Vicksburg, Mississippi
May 14, 2004

GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Vicksburg
Statement of Net Assets
September 30, 2003

	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
ASSETS			
Cash and cash equivalents	\$ 25,216,228	\$ 9,626,378	\$ 34,842,606
Investments	1,451,769	-	1,451,769
Receivables	888,971	717,785	1,606,756
Internal balances	304,050	(304,050)	-
Due from other governmental agencies	1,575,125	-	1,575,125
Inventories	46,058	-	46,058
Other assets	112,094	56,501	168,595
Capital assets:			
Land, improvements and construction in progress, not being depreciated	9,046,968	811,755	9,858,723
Infrastructure and infrastructure in progress, net of depreciation	48,911,294	-	48,911,294
Buildings, net of depreciation	18,075,866	27,831,732	45,907,598
Equipment and furniture, net of depreciation	4,388,422	1,686,491	6,074,913
Other capital assets, net of depreciation	5,388,342	-	5,388,342
Total capital assets	<u>85,810,892</u>	<u>30,329,978</u>	<u>116,140,870</u>
Total assets	<u>\$ 115,405,187</u>	<u>\$ 40,426,592</u>	<u>\$ 155,831,779</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 3,331,797	\$ 1,694,960	\$ 5,026,757
Due to other governmental agencies	233,756	-	233,756
Other liabilities			
Due within one year			
Bonds, capital leases and contracts	4,406,340	902,746	5,309,086
Accrued interest	43,135	-	43,135
Claims and judgments	189,679	29,027	218,706
Due in more than one year			
Bonds, capital leases and contracts	21,275,130	11,912,936	33,188,066
Compensated absences	897,866	139,036	1,036,902
Total liabilities	<u>30,377,703</u>	<u>14,678,705</u>	<u>45,056,408</u>
NET ASSETS			
Invested in capital assets, net of related debt	60,129,422	17,514,296	77,643,718
Restricted for:			
Debt service	2,399,946	189,000	2,588,946
Unrestricted	22,498,116	8,044,591	30,542,707
Total net assets	<u>\$ 85,027,484</u>	<u>\$ 25,747,887</u>	<u>\$ 110,775,371</u>

The accompanying notes are an integral part of this statement.

City of Vicksburg
Statement of Activities
For the Year Ended September 30, 2003

Functions/Programs Primary Government	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General Government	\$ 5,613,921	\$ -	\$ -	\$ 101,154	\$ (5,512,767)	\$ -	\$ (5,512,767)
Public Safety	13,977,220	2,206,587	289,653	50,330	(11,430,590)	-	(11,430,590)
Public Works	5,780,291	22,123	720,827	-	(5,037,341)	-	(5,037,341)
Health, Welfare and Sanitation	1,099,929	178,276	334,564	-	(587,089)	-	(587,089)
Culture and Recreation	3,067,951	634,949	102,201	295,900	(2,034,901)	-	(2,034,901)
Education	95,013	-	-	-	(95,013)	-	(95,013)
Interest on Long-term deb.	1,132,343	-	-	-	(1,132,343)	-	(1,132,343)
Total Governmental Activities	30,765,768	3,041,935	1,447,245	446,544	(25,830,044)	-	(25,830,044)
Business-type Activities							
Water	3,820,242	3,234,631	-	-	-	(585,611)	(585,611)
Gas	7,085,617	5,651,262	-	-	-	(1,434,355)	(1,434,355)
Sewer	2,833,307	3,238,735	-	105,897	-	511,325	511,325
Refuse	1,274,254	1,257,756	-	-	-	(16,498)	(16,498)
Total Business-type Activities	13,013,430	13,382,384	-	105,897	-	(1,525,139)	(1,525,139)
Total Primary Government	\$ 43,779,198	\$ 16,424,319	\$ 1,447,245	\$ 552,441	\$ (25,830,044)	\$ (1,525,139)	\$ (27,355,183)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					6,083,167		6,083,167
Property taxes, levied for debt service					2,245,815		2,245,815
Franchise taxes					8,790,680		8,790,680
Public service taxes					6,473,702		6,473,702
Grants and contributions not restricted to specific programs					27,788		27,788
Unrestricted investment earnings					337,679	39,822	377,501
Miscellaneous					179,245		179,245
Special item - gain on sale of assets					1,273,962		1,273,962
Transfers					(313,598)	313,598	-
Total General Revenues, Special Items, and Transfers					25,098,440	353,420	25,451,860
Change in Net Assets					(731,604)	(1,171,719)	(1,903,323)
Net assets:							
Net assets - beginning of year, as originally reported					36,124,574	26,919,606	63,044,180
Cumulative effects of changes in accounting principle:							
Adoption of GASB 34 for government wide accrual method:							
Accrual for compensator absences					(821,803)		(821,803)
Accrual for claims and judgments					(294,314)		(294,314)
Net capital asset additions					132,929,763		132,929,763
Adoption of accumulated depreciation for capital assets					(52,197,970)		(52,197,970)
Net long term debt from prior years					(29,894,449)		(29,894,449)
Other changes to prior year net assets					(86,713)		(86,713)
Net assets - ending					\$ 85,027,484	\$ 25,747,887	\$ 110,775,371

The accompanying notes are an integral part of this statement.

FUND FINANCIAL STATEMENTS

GOVERNMENT FUNDS

City of Vicksburg
Balance Sheet
Governmental Funds
September 30, 2003

	General Fund	City Bond and Interest	2001 Public Improvements	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 11,704,516	\$ 2,510,585	\$ 9,868,115	\$ 1,128,608	\$ 25,211,824
Investments	-	-	-	1,451,769	1,451,769
Taxes receivable, net	51,576	16,096	-	-	67,672
Due from other funds	446,847	1,013	-	180,572	628,432
Receivable from other governments	1,479,771	-	-	95,354	1,575,125
Other receivables	812,656	-	-	8,643	821,299
Inventories	29,707	-	-	-	29,707
Prepaid expenses	112,094	-	-	-	112,094
Total assets	\$ 14,637,167	\$ 2,527,694	\$ 9,868,115	\$ 2,864,946	\$ 29,897,922

LIABILITIES AND FUND BALANCES

Liabilities:					
Accounts payable	\$ 780,961	\$ -	\$ 1,538,076	\$ 136,992	\$ 2,456,029
Due to other funds	76,728	-	-	273,845	350,573
Payable to other governments	233,756	-	-	-	233,756
Deferred revenue	284,934	-	-	8,643	293,577
Other payables	809,638	41,036	-	4,350	855,024
Total liabilities	2,186,017	41,036	1,538,076	423,830	4,188,959

Fund balances:

Reserved for:					
Inventories	29,707	-	-	-	29,707
Encumbrances	31,912	-	47,327	-	79,239
Prepaid expenses	112,094	-	-	-	112,094
Debt service	-	2,486,658	-	-	2,486,658
Unreserved	12,277,437	-	8,282,712	-	20,560,149
Unreserved, reported in non-major:					
Special revenue funds	-	-	-	782,473	782,473
Capital projects funds	-	-	-	140,902	140,902
Permanent funds	-	-	-	1,517,741	1,517,741
Total fund balances	12,451,150	2,486,658	8,330,039	2,441,116	25,708,963
Total liabilities and fund balances	\$ 14,637,167	\$ 2,527,694	\$ 9,868,115	\$ 2,864,946	\$ 29,897,922

City of Vicksburg
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2003

Total fund balance, governmental funds \$ 25,708,963

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. 85,788,262

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. 293,577

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. 35,685

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. (26,799,003)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 85,027,484

City of Vicksburg
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2003

	<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	\$ 6,083,167	\$ 2,102,282	-	\$ 143,533	\$ 8,328,982
Sales and miscellaneous taxes	14,560,506	117,000	-	-	14,677,506
Fees and fines	652,703	-	-	-	652,703
Licenses and permits	1,111,165	-	-	-	1,111,165
Intergovernmental	620,122	-	-	784,489	1,404,611
Charges for services	1,979,341	-	-	116,313	2,095,654
Investment earnings	146,001	36,002	147,220	39,810	369,033
Miscellaneous	17,980	-	-	106,979	124,959
Rental income	-	-	-	7,401	7,401
Program income	-	-	-	8,207	8,207
Total revenues	<u>25,170,985</u>	<u>2,255,284</u>	<u>147,220</u>	<u>1,206,732</u>	<u>28,780,221</u>
EXPENDITURES					
Current:					
General government	5,366,865	-	68,436	41,479	5,476,780
Public safety	12,833,849	-	-	164,973	12,998,822
Public works	1,429,325	-	-	7,510	1,436,835
Health, welfare and sanitation	2,373,331	-	-	433,581	2,806,912
Culture and recreation	2,372,461	-	-	-	2,372,461
Community development	91,586	-	-	13,770	105,356
Debt service:					
Principal	376,638	4,360,000	-	95,000	4,831,638
Interest and other charges	42,005	1,007,260	-	99,525	1,148,790
Capital outlay	2,641,837	-	6,323,969	595,770	9,561,576
Total expenditures	<u>27,527,897</u>	<u>5,367,260</u>	<u>6,392,405</u>	<u>1,451,608</u>	<u>40,739,170</u>
Excess (deficiency) of revenues over expenditures	<u>(2,356,912)</u>	<u>(3,111,976)</u>	<u>(6,245,185)</u>	<u>(244,876)</u>	<u>(11,958,949)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from capital leases	618,659	-	-	-	618,659
Transfers in	187,795	2,498,173	-	33,406	2,719,374
Transfers out	(2,845,177)	-	(178,173)	(9,622)	(3,032,972)
Total other financing sources and uses	<u>(2,038,723)</u>	<u>2,498,173</u>	<u>(178,173)</u>	<u>23,784</u>	<u>305,061</u>
SPECIAL ITEM					
Proceeds from sale of land	1,273,962	-	-	-	1,273,962
Net change in fund balances	<u>(3,121,673)</u>	<u>(613,803)</u>	<u>(6,423,358)</u>	<u>(221,092)</u>	<u>(10,379,926)</u>
Fund balances - beginning	15,572,823	3,100,461	14,753,397	2,662,208	36,088,889
Fund balances - ending	<u>\$ 12,451,150</u>	<u>\$ 2,486,658</u>	<u>\$ 8,330,039</u>	<u>\$ 2,441,116</u>	<u>\$ 25,708,963</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, 2003

Net change in fund balances - total governmental funds: \$ (10,379,926)

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 \$9,561,576 exceeded depreciation of \$4,505,107 in the current period. 5,056,469

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. 293,577

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. 4,212,979

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	43,577
Accrued compensated absences not reflected on Governmental funds	(64,103)
Accrued claims and judgments not reflected on Governmental funds	105,823
	105,823

Change in net assets of governmental activities \$ (731,604)

PROPRIETARY FUNDS

City of Vicksburg
Statement of Net Assets
Proprietary Funds
September 30, 2003

	Business-Type Activities				Governmental Activities
	Enterprise Funds			Total	
	Water Fund	Gas Fund	Sewer Fund		Other Enterprise Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 4,294,153	\$ 3,153,421	\$ 2,133,016	\$ 45,788	\$ 4,404
Accounts receivable, net	119,590	82,868	430,616	84,711	-
Due from other funds	-	286,458	-	1,034	28,417
Inventories	-	-	-	-	16,351
Prepaid expenses	12,556	31,389	12,556	-	-
Total current assets	4,426,299	3,554,136	2,576,188	131,533	49,172
Non-current assets:					
Capital assets:					
Land and improvements	44,297	133,300	295,533	-	-
Utility system	21,191,597	6,244,938	22,864,606	-	-
Construction in progress	111,049	-	227,576	-	-
Buildings	61,608	102,143	-	-	-
Equipment and furniture	1,576,810	901,907	802,272	-	159,083
Less accumulated depreciation	(9,879,964)	(4,968,699)	(9,378,995)	-	(136,453)
Total non-current assets	13,105,397	2,413,589	14,810,992	-	22,630
Total assets	17,531,696	5,967,725	17,387,180	131,533	71,802
LIABILITIES					
Current Liabilities:					
Accounts payable	171,708	248,912	198,938	93,413	20,744
Due to other funds	579,953	1,870	7,009	2,710	2,226
Other accrued expenses	407,514	573,600	875	-	-
Claims and judgments	6,927	13,194	8,906	-	1,188
Bonds, notes and loans payable	496,368	73,700	332,678	-	-
Total current liabilities	1,662,470	911,276	548,406	96,123	24,158
Non-current liabilities:					
Compensated absences	31,063	61,667	46,306	-	11,959
Bonds, notes and loans payable	5,243,299	1,426,300	5,243,337	-	-
Total non-current liabilities	5,274,362	1,487,967	5,289,643	-	11,959
Total liabilities	6,936,832	2,399,243	5,838,049	96,123	36,117
NET ASSETS					
Invested in capital assets, net of related debt	7,365,730	913,589	9,234,977	-	-
Restricted for debt service	189,000	-	-	-	-
Unrestricted	3,040,134	2,654,893	2,314,154	35,410	35,685
Total net assets	10,594,864	3,568,482	11,549,131	35,410	35,685

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

\$ 25,747,887

The accompanying notes are an integral part of this statement.

City of Vicksburg
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2003

	Business-Type Activities			Total	Governmental Activities Internal Service Funds
	Water Fund	Gas Fund	Sewer Fund		
REVENUES					
Charges for services	\$ 3,234.63	\$ 5,651,262	\$ 3,238,735	\$ 13,382,384	\$ 529,256
Total operating revenues	<u>3,234.63</u>	<u>5,651,262</u>	<u>3,238,735</u>	<u>13,382,384</u>	<u>529,256</u>
OPERATING EXPENSES					
Personnel services	775,244	1,308,332	869,016	2,952,592	226,595
Contractual services	1,059,120	804,130	647,348	3,783,878	3,281
Utilities	487,415	36,077	149,451	672,943	7,907
Repairs and maintenance	313,580	218,088	218,402	750,070	273,525
Other supplies and expenses	411,717	4,322,027	126,328	4,861,046	12,072
Insurance claims and expenses	47,877	120,745	42,772	211,394	-
Depreciation	582,869	276,218	586,397	1,445,484	5,876
Total operating expenses	<u>3,677,822</u>	<u>7,085,617</u>	<u>2,639,714</u>	<u>14,677,407</u>	<u>529,256</u>
Operating income (loss)	<u>(443,191)</u>	<u>(1,434,355)</u>	<u>599,021</u>	<u>(1,295,023)</u>	<u>-</u>
NON-OPERATING REVENUES (EXPENSES)					
Interest and investment revenue	9,022	29,291	1,509	39,822	-
Interest expense	(142,420)	-	(191,593)	(336,013)	-
Total non-operating revenue (expenses)	<u>(133,398)</u>	<u>29,291</u>	<u>(191,084)</u>	<u>(296,191)</u>	<u>-</u>
Income (loss) before contributions and transfers	<u>(576,588)</u>	<u>(1,405,064)</u>	<u>406,937</u>	<u>(1,591,214)</u>	<u>-</u>
Capital contributions	-	-	105,897	105,897	-
Transfers in	313,598	-	-	313,598	-
Change in net assets	<u>(262,990)</u>	<u>(1,405,064)</u>	<u>512,834</u>	<u>(1,171,719)</u>	<u>-</u>
Total net assets - beginning	10,857,855	4,973,546	11,036,297	26,919,606	35,685
Total net assets - ending	<u>\$ 10,594,865</u>	<u>\$ 3,568,482</u>	<u>\$ 11,549,131</u>	<u>\$ 25,747,887</u>	<u>\$ 35,685</u>

Change in net assets, per above
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with Business Activities.

Change in Business-Type Activities in Net Assets per Government-Wide Financial Statements

(1,171,719)

\$ (1,171,719)

City of Viicksburg
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2003

	Business-Type Activities-Enterprise Funds					Governmental Activities Internal Service Funds
	Water Fund	Gas Fund	Sewer Fund	Other Enterprise Funds	Total Enterprise Funds	
Cash Flows From Operating Activities						
Receipts from customers and users	\$ 3,223,862	\$ 5,613,741	\$ 2,956,564	\$ 1,233,379	\$ 13,027,546	\$ 529,256
Receipts from interfund services provided	1,143	(55,573)	-	(7,910)	(62,340)	2,631
Payments to suppliers	(2,070,462)	(5,107,202)	(962,552)	(1,183,367)	(9,323,583)	(331,548)
Payments for interfund services used	(29,625)	(1,308,332)	(869,016)	-	(2,952,972)	(226,595)
Net Cash Provided (Used) by Operating Activities	349,674	(1,048,082)	1,280,811	45,788	628,191	(25,822)
Cash Flows From Non-Capital Financing Activities						
Advances from other funds	313,598	-	-	-	313,598	-
Net Cash Provided by Non-Capital Financing Activities	313,598	-	-	-	313,598	-
Cash Flows From Capital and Related Financing Activities						
Proceeds from capital debt	3,263,440	1,500,000	1,405,060	-	6,168,500	-
Capital contributions	-	-	105,897	-	105,897	-
Acquisition and construction of capital assets	(120,001)	(152,042)	(1,054,322)	-	(1,326,365)	(4,160)
Principal paid on capital debt	(318,632)	-	(240,426)	-	(559,058)	-
Interest paid on capital debt	(142,420)	-	(193,593)	-	(336,013)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	2,682,387	1,347,958	22,616	-	4,052,961	(4,160)
Cash Flows From Investing Activities						
Interest and dividends received	9,022	29,291	1,509	-	39,822	-
Net Cash Provided by Investing Activities	9,022	29,291	1,509	-	39,822	-
Net Increase (Decrease) in Cash and Cash Equivalents	3,354,681	329,167	1,304,936	45,788	5,034,572	(29,982)
Cash and Cash Equivalents, Beginning of Year	939,472	2,824,254	828,080	-	4,591,806	34,386
Cash and Cash Equivalents, End of Year	\$ 4,294,153	\$ 3,153,421	\$ 2,133,016	\$ 45,788	\$ 9,626,378	\$ 4,404
Reconciling of Operating Income to Net Cash Provided (Used) by Operating Activities						
Operating income (loss)	\$ (443,191)	\$ (1,434,355)	\$ 599,021	\$ (16,498)	\$ (1,295,023)	\$ 5,876
Depreciation expense	582,869	276,218	586,397	-	1,445,484	-
(Increase) decrease in accounts receivable	(6,742)	(29,763)	(275,094)	(23,403)	(335,002)	-
(Increase) decrease in due from other funds	106,760	230,457	182,672	(58)	519,831	3,820
(Increase) decrease in inventories	-	-	-	-	-	(2,685)
(Increase) decrease in prepaid expenses	(2,347)	(5,865)	(7,452)	-	(15,664)	-
Increase (decrease) in customer deposits	63,653	64,752	875	-	129,280	-
Increase (decrease) in accounts payable	106,118	148,298	132,171	89,914	476,501	(44,040)
Increase (decrease) in other accrued expenses	31,063	61,667	46,306	-	139,036	11,959
Increase (decrease) in claims and judgments	6,927	13,194	8,906	-	29,027	-
Increase (decrease) in due to other funds	(95,436)	(372,685)	7,009	(4,167)	(465,279)	(752)
Net Cash Provided (Used) by Operating Activities	\$ 349,674	\$ (1,048,082)	\$ 1,280,811	\$ 45,788	\$ 628,191	\$ (25,822)

FIDUCIARY FUNDS

**City of Vicksburg
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2003**

	<u>Agency Fund</u>
ASSETS	
Receivables:	
Other receivables	\$ 10,407
Total receivables	<u>10,407</u>
Total assets	<u><u>\$ 10,407</u></u>
 LIABILITIES	
Accounts payable	\$ 10,407
Total liabilities	<u>10,407</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, 2003**

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. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). Under GASB Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has elected for proprietary funds not to apply Financial Accounting Standards Board statements issued after November 30, 1989. The more significant accounting policies of the City are described below.

In this fiscal year, the City adopted three new statements of financial accounting standards and one new interpretation issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34-*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*
- Statement No. 37-*Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*
- Statement No. 38-*Certain Financial Statement Disclosures*
- Interpretation No. 6-*Recognition and Measurements of Certain Liabilities & Expenditures in Governmental Fund Financial Statements*

Some of the significant changes in the Statements include the following:

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using the full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The City has elected to implement the general provisions of the Statement in the current year and plans to retroactively report infrastructure.

A. Reporting Entity

The City's combined financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, 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

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Reporting Entity - Continued

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 and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

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 provided for governmental, proprietary, and fiduciary funds. 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 uses 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. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. 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.

Governmental fund financial statements 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. 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.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

Expenditures 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.

Major revenue sources susceptible to accrual include: sales taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenue and expenses related to the continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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. 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.

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003**

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 – account 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.

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, 2003**

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

Capital assets with useful lives of more than one year are stated at historical cost or estimated cost if historical cost is not available and comprehensively reported in the government-wide financial statements. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. 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.

GASB No. 34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements.

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

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I. Capital Assets-Continued

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.

No interest is capitalized by the City on construction projects incurred by proprietary funds on debt where proceeds were used to finance the construction of assets.

J. Compensated Absences

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

K. Long-term Obligations

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

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

L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2003**

NOTE 2. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

At September 30, 2003, the carrying amount (recorded on the City's books) of the City's demand deposits was \$34,842,605, and the bank balance was \$35,176,411.

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 \$1,451,769 (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	\$ 704,641	\$ 700,033
Equity mutual funds	309,408	298,251
Fixed income mutual funds	401,764	412,991
Corporate bonds and notes	10,210	10,125
Cash and equivalents	<u>25,746</u>	<u>25,745</u>
	<u>\$ 1,451,769</u>	<u>\$ 1,447,145</u>

These investments are category 1 items. The change in fair market value was immaterial.

NOTE 3. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND DEFERRED REVENUE

Property Taxes Receivable, Deferred Revenue, and Property Tax Calendar

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

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

General	22.79
City debt service	7.95
Police and fire disability relief fund	<u>5.14</u>
	<u>35.88</u>

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

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003**

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

General Accounts Receivables and Uncollectible Accounts

Significant receivables include amounts for fines and forfeits 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 forfeits 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, 2003 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Allowance</u>	<u>Total</u>
Governmental Activities				
General	\$ 4,904,454	\$ 51,576	\$ (4,091,798)	\$ 864,232
Debt Service	-	16,096	-	16,096
Other Governmental	<u>17,286</u>	<u>-</u>	<u>(8,643)</u>	<u>8,643</u>
Total governmental activities	<u>\$ 4,921,740</u>	<u>\$ 67,672</u>	<u>\$ (4,100,441)</u>	<u>\$ 888,971</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Business-type Activities				
Water	\$ 146,840	-	\$ (27,250)	\$ 119,590
Gas	86,942	-	(4,074)	82,868
Sewer	430,616	-	-	430,616
Other proprietary	<u>89,325</u>	<u>-</u>	<u>(4,614)</u>	<u>84,711</u>
Total Business-type Activities	<u>\$ 753,723</u>	<u>\$ -</u>	<u>\$ (35,938)</u>	<u>\$ 717,785</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003**

NOTE 4. RECEIVABLES AND PAYABLES-CONTINUED

Payables at September 30, 2003 were as follows:

	<u>Vendor</u>	<u>Salaries & Benefits</u>	<u>Accrued Interest</u>	<u>Other</u>	<u>Total</u>
Governmental Activities					
General	\$ 780,961	\$ 84,156	\$ -	\$ 725,482	\$ 1,590,599
Debt Service	-	-	41,036	-	41,036
Capital Projects	1,538,076	-	-	-	1,538,076
Other Governmental	136,992	-	-	4,350	141,342
Internal Service	<u>20,744</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,744</u>
Total governmental activities	<u>\$2,476,773</u>	<u>\$ 84,156</u>	<u>\$ 41,036</u>	<u>\$ 729,832</u>	<u>\$ 3,331,797</u>
Business-Type Activities					
Water	\$ 171,708	\$ -	\$ -	\$ 407,514	\$ 579,222
Gas	248,912	-	-	573,600	822,512
Sewer	198,938	-	-	875	199,813
Other proprietary	<u>93,413</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,413</u>
Total business-type activities	<u>\$ 712,971</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 981,989</u>	<u>\$ 1,694,960</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at September 30, 2003 consisted of the following:

<u>Due From</u>	<u>Due To</u>			
	<u>Governmental Activities</u>			
	<u>Major Governmental Funds</u>			<u>Internal Service</u>
	<u>General</u>	<u>Debt Service</u>	<u>Other</u>	<u>Service</u>
Governmental Activities:				
Major Governmental Funds:				
General	\$ -	\$ -	\$ 47,277	\$ 28,417
Other Governmental Funds	139,537	1,013	133,295	-
Internal Service Funds	2,226	-	-	-
Business-Type Activities:				
Major Enterprise Funds:				
Water	301,604	-	-	-
Gas	1,870	-	-	-
Sewer	1,610	-	-	-
Other Enterprise Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Due To	<u>\$ 446,847</u>	<u>\$ 1,013</u>	<u>\$ 180,572</u>	<u>\$ 28,417</u>

Continued

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003

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>Other</u>	<u>Total</u>
	<u>Gas</u>		
Governmental Activities:			
Major Governmental Funds:			
General	\$ -	\$ 1,034	\$ 76,728
Other Governmental Funds	-	-	273,845
Internal Service Funds			2,226
Business-Type Activities:			
Major Enterprise Funds:			
Water	278,349	-	579,953
Gas	-	-	1,870
Sewer	5,399	-	7,009
Other Enterprise Funds	<u>2,710</u>	<u>-</u>	<u>2,710</u>
Total Due To	<u>\$ 286,458</u>	<u>\$ 1,034</u>	<u>\$ 944,341</u>

The balance of \$139,537 due to the general fund from the other governmental funds resulted from capital projects; \$86,000 of the balance is not scheduled to be collected in the subsequent year.

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, 2003 consisted of the following:

	<u>Transfer To</u>				
	<u>Governmental Activities</u>			<u>Business-Type Activities</u>	
	<u>Major Governmental Funds</u>	<u>Debt</u>	<u>Other</u>	<u>Major Enterprise Fund</u>	<u>Total</u>
	<u>General</u>	<u>Service</u>		<u>Water</u>	
Governmental Activities:					
Major Governmental Funds:					
General	\$ -	2,498,173	\$ 33,406	\$ 313,598	\$ 2,845,177
Capital Projects	178,173	-	-	-	178,173
Other Governmental Funds	<u>9,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,622</u>
Total Transfers to	<u>\$ 187,795</u>	<u>\$ 2,498,173</u>	<u>\$ 33,406</u>	<u>\$ 313,598</u>	<u>\$ 3,032,972</u>

Continued

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003

NOTE 6. CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended September 30, 2003, for the primary government is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$ 9,046,968	\$ -	\$ -	\$ 9,046,968
Buildings	23,577,858	1,249,073	-	24,826,931
Furniture and equipment	14,318,169	1,602,063	2,941,337	12,978,895
Improvements-other	2,771,029	6,733,070	-	9,504,099
Infrastructure	<u>86,157,075</u>	<u>-</u>	<u>-</u>	<u>86,157,075</u>
Total capital assets	<u>\$ 135,871,099</u>	<u>\$ 9,584,206</u>	<u>\$ 2,941,337</u>	<u>\$ 142,513,968</u>
Less accumulated depreciation for:				
Buildings	\$ 6,321,699	\$ 429,366	\$ -	\$ 6,751,065
Furniture and equipment	10,214,995	1,316,815	2,941,337	8,590,473
Improvements-other	3,839,874	275,883	-	4,115,757
Infrastructure	<u>34,762,738</u>	<u>2,483,043</u>	<u>-</u>	<u>37,245,781</u>
Total accumulated depreciation	<u>\$ 55,139,306</u>	<u>\$ 4,505,107</u>	<u>\$ 2,941,337</u>	<u>\$ 56,703,076</u>
Net governmental activities capital assets	<u>\$ 80,731,793</u>	<u>\$ 5,079,099</u>	<u>\$ -</u>	<u>\$ 85,810,892</u>
Business-type activities:				
Land	\$ 237,605	\$ 235,525	\$ -	\$ 473,130
Construction in progress	1,199,791	216,946	1,078,112	338,625
Buildings	48,704,154	1,760,738	-	50,464,892
Furniture and equipment	<u>3,242,442</u>	<u>191,269</u>	<u>152,722</u>	<u>3,280,989</u>
Total capital assets	<u>\$ 53,383,992</u>	<u>\$ 2,404,478</u>	<u>\$ 1,230,834</u>	<u>\$ 54,557,636</u>
Less accumulated depreciation for:				
Buildings	\$ 21,392,514	\$ 1,240,646	\$ -	\$ 22,633,160
Furniture and equipment	<u>1,542,382</u>	<u>204,838</u>	<u>152,722</u>	<u>1,594,498</u>
Total accumulated depreciation	<u>\$ 22,934,896</u>	<u>\$ 1,445,484</u>	<u>\$ 152,722</u>	<u>\$ 24,227,658</u>
Net business-type activities capital assets	<u>\$ 30,449,096</u>	<u>\$ 958,994</u>	<u>\$ 1,078,112</u>	<u>\$ 30,329,978</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003**

NOTE 6. CAPITAL ASSETS-CONTINUED

Depreciation expense of \$5,950,591 for the year ended September 30, 2003, was charged to the following governmental functions:

Governmental activities:	
General government	\$ 201,941
Public safety	\$ 962,466
Public works	\$ 2,720,380
Health, welfare and sanitation	\$ 116,607
Culture and recreation	\$ 502,021
Education	\$ 1,692
Business-type activities:	
Water	\$ 582,869
Gas	\$ 276,218
Sewer	\$ 586,397

Active construction in progress is composed of the following:

	<u>Project Contract</u>	<u>Expended to 09/30/03</u>	<u>Committed</u>
Governmental Activities:			
2001 Public Improvement Fund			
Porter Chapel	\$ 1,389,407	\$ 1,377,583	\$ 11,824
Washington Street	\$ 2,917,633	\$ 1,511,542	\$ 1,406,091
Clay Street Sidewalks	\$ 321,490	\$ 277,392	\$ 44,098
Sidewalks	\$ 473,310	\$ -	\$ 473,310
Walnut Towers	\$ 538,000	\$ -	\$ 538,000
Depot Building	\$ 423,500	\$ -	\$ 423,500
General Fund:			
King's Building Renovation	\$ 160,790	\$ -	\$ 160,790
Traffic Signals	\$ 173,019	\$ -	\$ 173,019
Convention Center Fund:			
Basement Renovation	\$ 189,337	\$ 167,401	\$ 21,936

Construction projects included in governmental activities are substantially funded with general obligation bond proceeds. 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, 2003**

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 is in compliance with all significant financial requirements as of September 30, 2003.

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, 2003:

	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Interest Rate</u>
Governmental Activities:			
General Obligation Bonds:			
Unredeemed Bond (Old compromise)	N/A	\$ -	0%
1992 Public Improvement and Refunding	December 2002	\$ 9,985,000	4.0-5.25%
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, 2003

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%
Business-Type Activities:			
General Obligation Bonds:			
2003 Public Improvement	September 2018	\$ 5,800,000	3.0 - 4.25%
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	\$ -
1992 Public Improvement and Refunding	750,000	-	750,000	-	-
1995 Public Improvement	2,735,000	-	865,000	1,870,000	910,000
1996 General Obligation Bond	4,625,000	-	1,070,000	3,555,000	1,125,000
1996 General Obligation MBIA Bond	900,000	-	100,000	800,000	100,000
2001 General Obligation Bond	17,616,662	-	1,575,000	16,041,662	1,704,797
Other:					
1991 Tax Increment Limited Obligation Bond	175,000	-	15,000	160,000	15,000
1995 Tax Increment Limited Obligation Bond	475,000	-	25,000	450,000	30,000
1999 Tax Increment Limited Obligation Bond	1,055,000	-	55,000	1,000,000	60,000

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003**

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	\$ -	\$ 5,800,000	\$ 285,000
Revenue Bonds:					
1994 Water System	2,145,000	-	255,000	1,890,000	270,000
Other:					
1995 State Revolving Fund Loan	1,501,004	-	87,694	1,413,310	91,722
1996 State Revolving Fund Loan	2,910,375	-	152,730	2,757,645	159,749
1996 Department of Economic and Community Development- Capital Improvements Revolving Loan	649,861	-	63,634	586,227	66,008
2003 State Water Pollution Control	-	368,500	-	368,500	30,267
Total	<u>\$ 35,538,202</u>	<u>\$ 6,168,500</u>	<u>\$ 5,014,058</u>	<u>\$ 36,692,644</u>	<u>\$ 4,847,543</u>

The debt service requirement on long-term obligations at September 30, 2003 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,				
2004	\$ 3,839,797	\$ 854,763	\$ 105,000	\$ 91,328
2005	4,029,797	691,521	110,000	84,855
2006	3,214,797	515,732	120,000	78,855
2007	2,054,797	378,893	125,000	72,090
2008	2,144,797	297,694	130,000	64,975
2009-2013	6,982,677	397,531	715,000	205,088
2014-2018	300	-	305,000	25,700
Total	<u>\$ 22,266,962</u>	<u>\$ 3,136,134</u>	<u>\$ 1,610,000</u>	<u>\$ 622,891</u>

Continued

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003**

NOTE 7. LONG-TERM OBLIGATIONS - CONTINUED

	Business-Type Activities					
	General Obligation Bonds		Revenue Bonds		Other	
	Principal	Interest	Principal	Interest	Principal	Interest
Year ending September 30,						
2004	\$ 285,000	\$ 312,088	\$ 270,000	\$ 99,090	\$ 347,746	\$ 217,257
2005	295,000	193,715	285,000	81,000	381,550	201,952
2006	310,000	181,246	305,000	66,750	379,032	185,972
2007	320,000	170,246	320,000	51,500	395,721	169,283
2008	335,000	160,421	345,000	35,500	413,146	151,856
2009-2013	1,905,000	627,891	365,000	18,250	2,141,208	476,705
2014-2018	<u>2,350,000</u>	<u>239,830</u>	-	-	<u>1,067,279</u>	<u>68,552</u>
Total	<u>\$ 5,800,000</u>	<u>\$ 1,885,437</u>	<u>\$ 1,890,000</u>	<u>\$ 352,090</u>	<u>\$ 5,125,682</u>	<u>\$ 1,471,577</u>

Certain investments of the City's Enterprise fund are restricted assets because their use is limited by applicable bond covenants. In addition, assets are also restricted because their use is completely restricted by grant agreements. The balance restricted at September 30, 2003, was approximately \$189,000.

Compensated Absences

The annual changes to compensated absences included in general long-term debt as of September 30, 2003, are as follows:

	Governmental Activities	Business-Type Activities
Beginning Balance	\$ 839,247	\$ 137,054
Additions	95,555	5,607
Reduction	(36,936)	(3,625)
Ending Balance	<u>\$ 897,866</u>	<u>\$ 139,036</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. For capital leases, totals of principal and interest components equal required minimum payments for periods shown and total principal equals the net present value of these leases.

CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003

NOTE 7. LONG-TERM OBLIGATIONS - CONTINUED

The debt service for capital leases is as follows:

Year ending September 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 461,543	\$ 50,133
2005	461,543	36,989
2006	461,543	23,420
2007	323,750	9,624
2008	<u>96,132</u>	<u>2,074</u>
	<u>\$ 1,804,511</u>	<u>\$ 122,240</u>

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 \$586,591.

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, 2003, 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>2003</u>		
Balance, beginning of year	\$ 296,030	\$ 45,302
Claims incurred	1,047,112	274,780
Claims payments	(1,343,142)	(320,082)
IBNR	<u>189,679</u>	<u>29,027</u>
Balance, end of year	<u>\$ 189,679</u>	<u>\$ 29,027</u>
<u>2002</u>		
Balance, beginning of year	\$ 200,198	\$ 30,637
Claims incurred	1,691,183	258,806
Claims payments	(1,891,381)	(289,443)
IBNR	<u>296,030</u>	<u>45,302</u>
Balance, end of year	<u>\$ 296,030</u>	<u>\$ 45,302</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, 2003**

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 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, 2003, 2002 and 2001 were \$1,535,537, \$1,439,266 and \$1,462,924, 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.

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 is adequately covered by insurance. The City, after consultation with legal counsel, does not believe that the ultimate disposition of the above legal proceedings will have a material adverse effect on the financial position of the City.

Grants

In the normal course of operations, the City receives federal and state grants for specific purposes that are subject to review and audit 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.

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 2003**

NOTE 11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Financial information by enterprise fund as of and for the year ended September 30, 2003, follows:

	<u>Sanitation Fund</u>
Operating revenues	\$ 1,257,756
Operating expenses	\$ 1,274,254
Operating income (loss)	\$ (16,498)
Net income (loss)	\$ (16,498)
Net working capital	\$ 35,410
Total assets	\$ 131,533
Total equity	\$ 35,410

NOTE 12. RISK MANAGERMENTS

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

NOTE 13. SUBSEQUENT EVENTS

During December 2003, the City authorized and directed the issuance of General Obligation Refunding Bonds, Series 2003, in the principal amount of \$1,620,000 for the purpose of providing funds to prepay and currently refund the City's outstanding Water System Revenue Bonds, Series 1994, dated October 1, 1994, providing for the redemption of the series 1994 bonds.

III. REQUIRED SUPPLEMENTAL INFORMATION

BUDGET COMPARISON SCHEDULES

**CITY OF VICKSBURG
BUDGET AND ACTUAL (WITH VARIANCES)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 6,074,000	\$ 6,074,000	\$ 6,083,167	\$ 9,167
Sales and miscellaneous taxes	14,353,500	14,353,500	14,560,506	207,006
Fees and fines	850,000	650,000	652,703	2,703
Licenses and permits	920,500	920,500	1,111,165	190,665
Intergovernmental	1,359,400	1,359,400	620,122	(739,278)
Charges for services	1,538,500	1,538,500	1,979,341	440,841
Investment earnings	164,800	164,800	146,001	(18,799)
Miscellaneous	4,000	5,500	17,980	12,480
Total revenues	<u>25,264,700</u>	<u>25,066,200</u>	<u>25,170,985</u>	<u>104,785</u>
EXPENDITURES				
Current:				
General government	5,388,690	5,331,690	5,366,866	(35,176)
Public safety	14,138,930	14,189,930	12,833,849	1,356,081
Public works	1,430,240	1,504,290	1,429,325	74,965
Health, welfare and sanitation	2,306,630	2,449,555	2,373,331	76,224
Culture and recreation	3,113,550	3,151,800	2,372,461	779,339
Community development	104,850	114,850	91,586	23,264
Debt Service:				
Principal and interest	478,290	500,690	418,643	82,047
Capital outlay	5,068,370	4,596,729	2,641,837	1,954,892
Total expenditures	<u>32,029,550</u>	<u>31,839,534</u>	<u>27,527,898</u>	<u>4,311,636</u>
Excess (deficiency) of revenues over expenditures	<u>(6,764,850)</u>	<u>(6,773,334)</u>	<u>(2,356,913)</u>	<u>4,416,421</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital leases	229,000	229,000	618,659	(389,659)
Transfers in	470,000	470,000	187,795	282,205
Transfers out	-	(2,375,000)	(2,845,176)	470,176
Total other financing sources and uses	<u>699,000</u>	<u>(1,676,000)</u>	<u>(2,038,722)</u>	<u>362,722</u>
SPECIAL ITEM				
Proceeds from sale capital assets	1,220,000	1,220,000	1,273,962	(53,962)
Net change in fund balances	(4,845,850)	(7,229,334)	(3,121,673)	(4,107,661)
Fund balances - beginning	15,572,823	15,572,823	15,572,823	-
Fund balances - ending	<u>\$ 10,726,973</u>	<u>\$ 8,343,489</u>	<u>\$ 12,451,150</u>	<u>\$ (4,107,661)</u>

**CITY OF VICKSBURG, MISSISSIPPI
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
YEAR ENDED SEPTEMBER 30, 2003**

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, 2003, 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.

Explanation of major changes from original budget to final budget On September 30, 2003 the City approved an amendment to transfer net surplus to the City Bond and Interest Fund to pay general obligation debt in future years in lieu of raising property taxes.

IV. OTHER ADDITIONAL INFORMATION

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
YEAR ENDED SEPTEMBER 30, 2003**

OFFICIAL'S ADMINISTRATION OCTOBER 1, 2002 TO SEPTEMBER 30, 2003

Name	Position	Company	Bond
Laurence E. Leyens	Mayor and Treasurer	Great River Insurance	\$ 100,000
Gertrude A. Young	Aldерwoman, President of Board	State Farm Fire & Casualty	\$ 75,000
Sidney H. Beauman, Jr.	Alderman	Brierfield Insurance Company	\$ 50,000
Thomas Moffet	Police Chief	Western Surety Company	\$ 50,000
Edna Hadad	Deputy City Clerk	Western Surety Company	\$ 50,000
Suzan Ebeling	Court Clerk	Brierfield Insurance Company	\$ 10,000
Public Employees Bond (Blanket Bond)		Travelers Casualty & Surety Company of America	\$ 10,000
Walter W. Osborne, Jr.	City Clerk	Brierfield Insurance Company	\$ 50,000

CITY OF VICKSBURG
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

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 CDBG 1999 Home Investment Partnership Program	14.239	M99-SG-28-01-0178	<u>149,450</u>
Total U.S. Department of Housing and Urban Development			<u>149,450</u>
U.S. Department of Justice: Direct Programs:			
Office of Community Policing Services: COPS MORE	16.710		17,344
Bureau of Justice Assistance: Bullet Proof Vests	16.607		3,172
Local Law Enforcement Block Grant	16.592		172,344
Office of Justice: Bureau of Alcohol, Tobacco & Firearms Gang Resistant Education and Training	21.053		16,781
Pass through programs from the MS Division of Public Safety Planning:			
Enforcing Underage Drinking Laws	16.579	1-UA-2341	5,712
Victim Witness	16.579	1NW2347	27,907
Selected Traffic Enforcement Program	16.579	21N2341	<u>7,288</u>
			40,907
Juvenile Accountability Incentive Block Grant	16.523	OJB2341	<u>33,474</u>
			<u>74,381</u>
Total U.S. Department of Justice			<u>284,022</u>
Federal Emergency Management Agency: Assistance to Firefighters	85.554		80,726
Pass through programs from the MS Emergency Management Agency Emergency Housing-Flood Mitigation/Unmet Needs	97.029	1265-001	<u>145,319</u>
Total Federal Emergency Management Agency			<u>226,045</u>
Department of Transportation Pass through programs from MS Department of Transportation			
Highway Planning & Construction	20.205	STP-9654-00-(002)	131,963
Highway Planning & Construction	20.205	STP-0440-00-(004)	<u>101,154</u>
Total Department of Transportation			<u>233,117</u>
Total expenditures of federal awards			<u><u>892,634</u></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, 2003

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, 2003**

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

V. INTERNAL CONTROL AND COMPLIANCE



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

Honorable Mayor and Board of Aldermen
City of Vicksburg, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Vicksburg, Mississippi, as of and for the year ended September 30, 2003, which collectively comprise the City of Vicksburg, Mississippi's basic financial statements and have issued our report thereon dated May 14, 2004. 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.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of the City of Vicksburg, Mississippi in a separate letter dated May 14, 2004.

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 assurance 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 condition is described in the accompanying schedule of findings and questioned costs as item 03-1.

A material weakness is a 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 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 03-1 to be a material weakness. We also noted other matters involving the internal control over financial reporting which we have reported to management of City of Vicksburg, Mississippi in a separate letter dated May 14, 2004.

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110 MONUMENT PLACE • POST OFFICE BOX 821568 • VICKSBURG, MISSISSIPPI 39182-1568 • TELEPHONE (601) 636-4762 • FAX (601) 636-9476

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

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.

Mays Company

Vicksburg, Mississippi
May 14, 2004



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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, 2003. 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, 2003.

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 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 that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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.

Mausa Company

Vicksburg, Mississippi
May 14, 2004

**CITY OF VICKSBURG, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2003**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the City of Vicksburg, Mississippi.
2. One reportable condition disclosed during the audit of the financial statements is reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. This condition is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the City of Vicksburg, Mississippi 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. No audit findings relative to the major federal award programs for the City of Vicksburg, Mississippi are reported in this Schedule.
7. The programs tested as major programs included: U. S. Department of Justice CFDA 16.592, U. S. Department of Housing and Urban Development CFDA 14.239 and Federal Emergency Management Agency CFDA 97.029 and 85.554.
8. The threshold for distinguishing Types A and B programs was \$300,000.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS:

03-1 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 from 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, 2003**

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, 2003, and have issued our report thereon dated May 14, 2004. 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.

Fines and Forfeitures - The City is in violation of Section 21-15-21 of the Mississippi Code of 1972, which prescribes for the collection and immediate settlement of all fines and forfeitures when due.

Response: - The City is in the process of reviewing the entire procedures in its court system and developing procedures to enhance internal controls and compliance. In addition, the City is presently conducting training courses on software and interviews of the court system personnel to improve the financial reporting information.

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.

Vicksburg, Mississippi
May 14, 2004

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