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CITY OF BROOKHAVEN, MISSISSIPPI
AUDIT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2003

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CITY OF BROOKHAVEN, MISSISSIPPI
AUDIT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2003

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Aldermen
City of Brookhaven
Brookhaven, MS 39601

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Brookhaven, 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 the City of Brookhaven, Mississippi's management. Our responsibility is to express an opinion 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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Brookhaven, 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 11, 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 30, 2003.

The management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 36 through 37 are not required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

We have included a surety bond schedule, a reconciliation of original ad valorem tax rolls to fund collections, and a combined schedule of long-term debt as additional supplemental information. This 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.

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2004 on our consideration of Brookhaven, Mississippi's internal control over financial reporting and 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Brookhaven, Mississippi's basic financial statements. The accompanying schedule of expenditures of federal awards, schedule of findings and questioned costs, and summary schedule of prior audit findings are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of City of Brookhaven, Mississippi. 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.

Verbalee Watts
Verbalee Watts & Associates
Certified Public Accountants
Brookhaven, Mississippi
March 18, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2003

The discussion and analysis of the City of Brookhaven's financial performance provides an overall narrative review of the City's financial activities for the fiscal year ended September 30, 2003. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. To the extent this discussion contains any forward-looking statements of the City's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein. The discussion focuses on the City's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

This discussion and analysis is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information between the current year and the prior year is required to be presented. However, since this is the first year of implementation of the new reporting model contained in GASB Statement No. 34, the Statement permits the omission of prior year data in the year of implementation. The City has elected not to present comparative data.

Financial Highlights

The City's assets exceeded its liabilities by \$24,344,546 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$24,527,452.

Total net assets are comprised of the following:

(1) Capital assets, net of related debt, of \$16,109,602 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.

(2) Net assets of \$3,435,631 are restricted by constraints imposed from outside the city such as debt covenants, grantors, laws, or regulations.

(3) Unrestricted net assets of \$4,799,313 represent the portion available to maintain the City's continuing obligations to citizens and creditors.

The City's governmental funds reported total ending fund balance of \$4,835,601 this year. This compares to the prior year ending fund balance of \$5,249,578 showing a decrease of \$413,977 during the year. Unreserved fund balance of \$3,989,245 for fiscal year 2003 shows a \$707,525 decrease over the prior year.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,831,727 or 36.7% of total General Fund expenditures including transfers and 39.8% of total General Fund revenues including transfers.

Total liabilities of the City decreased by \$1,691,447 to \$13,320,979 during the fiscal year.

Overview of the financial statements

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2003

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Assets*. This is the City-wide statement of position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other non-financial factors such as diversification of the taxpayer base or the condition of City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities* which reports how the City's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, culture and recreation. Business-type activities include water utilities and solid waste management. Fiduciary activities such as Separate School District Fund are not included in the government-wide statements since these assets are not available to fund City programs.

The City's financial reporting includes the funds of the City (primary government) and organizations for which the City is accountable (component units). Some of these legally separate organizations operate like City departments. This type organization is blended into the primary government for financial reporting purposes. An example of a blended organization would be the Brookhaven Airport Authority. Other component units operate more independently or provide services directly to the citizens though the City remains accountable for their activities. These organizations, such as the City of Brookhaven Parks and Recreation Commission are reported separately from the primary government though included in the City's overall reporting entity. More comprehensive information about the City's component units can be found in Note 1A.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2003

The City has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with funds statements providing a distinctive view of the City's governmental funds. These statements focus on spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's current financial requirements. Governmental funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the City's operations.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliations to the government-wide statements to assist in understanding the differences between these two perspectives. These reconciliations are on pages 16 and 19, respectively.

Budgetary comparison statements for the general fund are included as required supplemental information.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two kinds of proprietary funds. These are enterprise funds and internal service funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization such as the water department and the solid waste department. Internal service funds provide services and charge fees to customers within the City organization such as equipment services (repair and maintenance of City vehicles). The City of Brookhaven does not maintain any internal service funds.

Proprietary fund statements and statements for discretely presented component units (reporting is similar to proprietary funds) provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds and individual component units.

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the City's programs. The accrual basis of accounting is used for fiduciary funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 23.

Note to the financial statements

The accompanying notes to the financial statements provide information that is essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 - 34 of this report.

Financial Analysis of the City as a Whole

The City's net assets at fiscal year-end are \$24,344,546. This is an \$182,906 decrease over last year's net assets of \$24,527,452. The following table provides a summary of the City's net assets for the fiscal year ended September 30, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2003

Summary of Net Assets

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Totals</u>
Current and other assets	\$ 5,065,824	\$ 3,983,211	\$ 9,049,035
Capital assets	<u>15,245,156</u>	<u>13,371,334</u>	<u>28,616,490</u>
Total assets	<u>20,310,980</u>	<u>17,354,545</u>	<u>37,665,525</u>
Long-term liabilities	4,122,419	7,287,225	11,409,644
Other liabilities	<u>762,818</u>	<u>1,148,517</u>	<u>1,911,335</u>
Total liabilities	<u>4,885,237</u>	<u>8,435,742</u>	<u>13,320,979</u>
Net Assets:			
Invested in capital assets, net of related debt	10,697,950	5,411,652	16,109,602
Restricted	826,310	2,609,321	3,435,631
Unrestricted	<u>3,901,483</u>	<u>897,830</u>	<u>4,799,313</u>
Total net assets	<u>\$ 15,425,743</u>	<u>\$ 8,918,803</u>	<u>\$ 24,344,546</u>

The following table provides a summary of the City's changes in net assets:

Summary of Changes in Net Assets

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Totals</u>
Revenues:			
Program revenues			
Charges for services	\$ 55,704	\$ 2,647,971	\$ 2,703,675
Grants and Contributions	1,096,883	18,256	1,115,139
General revenues			
Property taxes	2,095,532	376,574	2,472,106
Penalties and interest	99,262		99,262
In lieu taxes	61,073		61,073
Franchise tax	326,532		326,532
Grand Gulf Nuclear Plant	146,863		146,863
Sales tax	3,905,874		3,905,874
Gasoline tax	16,887		16,887
Homestead reimbursement	114,124	22,551	136,675
Miscellaneous	171,124	2,828	173,952
Sale of equipment	125,615		125,615
Interest income	165,613	100,610	266,223
Transfers	<u>(471,504)</u>	<u>41,174</u>	<u>(430,330)</u>
Total revenues	<u>7,909,582</u>	<u>3,209,964</u>	<u>11,119,546</u>

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2003

Expenses:			
General government	1,924,703		1,924,703
Police administration	1,551,817		1,551,817
Police court	121,734		121,734
Police special services	68,476		68,476
Fire administration	1,645,841		1,645,841
Building inspection	94,360		94,360
City streets	1,543,472		1,543,472
Traffic department	72,813		72,813
Airport	43,969		43,969
Cemetery	189,871		189,871
Shop and city barn	78,950		78,950
Capital projects	475,660		475,660
Debt service	251,881		251,881
Employment fund	16,060		16,060
Support appropriations	226,005		226,005
Water and sewer		2,071,335	2,071,335
Solid waste		925,505	925,505
Total expenses	8,305,612	2,996,840	11,302,452
Change in net assets	(396,030)	213,124	(182,906)
Beginning net assets	15,821,773	8,705,679	24,527,452
Ending net assets	\$ 15,425,743	\$ 8,918,803	\$ 24,344,546

Financial Analysis of the City's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported ending fund balances of \$4,835,601. Of this year-end total approximately \$4,000,000 is unreserved indicating availability for continuing City service requirements. Reserved fund balances include \$826,175 committed to service debt.

The total ending fund balances of governmental funds show a decrease of \$413,977 over the prior year.

Major Governmental Funds

The General Fund is the City's primary operating fund and the largest source of day-to-day service delivery. The fund balance of the General Fund decreased by \$591,205. Key factors contributing to this decrease were increased expenses for employee benefits and property tax collections being below anticipated amounts.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2003

General Fund Budgetary Highlights

The General Fund budget for fiscal year 2003 was \$8,172,176. This was a decrease of \$12,758 from the previous year amended budget.

Capital Asset and Debt Administration

Capital assets

The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of June 30, 2003, was \$15,245,156 and \$13,371,334 respectively. The total increase in this net investment was 9.39% for governmental and a decrease of 3.73% for business-type activities. The overall increase was 2.84% for the City as a whole.

Capital Assets			
Net of Accumulated Depreciation			
	Governmental Activities	Business-type Activities	Totals
Non Depreciable Assets:			
Land/Land Improvements	\$ 4,271,000	\$ 84,499	\$ 4,355,499
Depreciable Assets:			
Building	1,745,889		1,745,889
Improvements other than bldg	7,427,441	12,992,284	20,419,725
Machinery & equipment	1,800,826	294,551	2,095,377
Total	\$ 15,245,156	\$ 13,371,334	\$ 28,616,490

Long-term debt

At the end of the fiscal year, the City had total long term debt outstanding of \$12,506,888. Of this amount, \$6,850,896 is backed by the full faith and credit of the City with debt service funded by voter-approved property taxes. The other major component is \$5,655,992 supported by pledged revenue generated primarily by the business-type activities of the City.

Long-term Debt			
	Governmental Activities	Business-type Activities	Totals
General obligation bonds	\$ 3,870,000	\$ 2,115,000	\$ 5,985,000
Revenue bonds	-	5,365,000	5,365,000
Notes - general obligation	677,206	188,690	865,896
Notes - revenue		290,992	290,992
Total	\$ 4,547,206	\$ 7,959,682	\$ 12,506,888

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2003

Economic Factors and Next Year's Budgets and Rates

When creating the budget, the city leadership's primary objective was to provide city services while at the same time attempting to keep property tax rates low.

The City of Brookhaven is a commercial center for Southwest Mississippi. Our economic base is dependent on retail sales to the people of this region. Because of this, the City is not dependent on a particular business to maintain its tax base. It has been able to see a growing tax base and to experience a stable economy from business development and employment growth.

The City of Brookhaven has the following projects underway that will be of benefit to the Municipality.

- 1) Annexation: The City recently completed an annexation trial seeking to enlarge the Municipal Boundaries. The Court will issue its ruling on the proposed annexation area on or before April 14, 2004. Because the annexation issue is not yet settled, annexation was not factored into the fiscal year 2003-2004 budget. A study has been done showing the projected revenues and expenses associated with the proposed annexation. This study is available at the City Clerk's office.
- 2) Solid Waste: The City recently reorganized the Solid Waste Department operations in the hope of making it more efficient and cost effective. The City entered into contract with Waste Management to collect residential garbage. Commercial garbage collection is also privatized on an individual basis. The City has reassigned Solid Waste employees and scaled the Rubbish Department to seven (7) employees.
- 3) Multi-Modal Facility: The City has embarked on the construction of a Multi-Modal Facility for the purpose of serving as a train depot and bus terminal. The project is funded with the assistance of the Federal Government and is currently in the design phase. The Multi-Modal Project will also constitute a major urban renewal project for Brookhaven.
- 4) Industrial Park: The City has voted to provide financial support to the construction of a new industrial park west of Brookhaven. The funding will be a joint venture of the City and County Government. The City has also purchased 40.19 acres adjacent to the old Industrial Park for future development.

Requests for information

This report is designed to provide a general overview of the City's finances, comply with finance-related laws and regulations, and demonstrate the City's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City Clerk's office located in the Brookhaven/Lincoln County Government Complex at 300 S 1st Street, Brookhaven, Mississippi 39601.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2003

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<u>ASSETS</u>				
Cash and cash equivalents	\$ 4,644,646	\$ 3,644,807	\$ 8,289,453	\$ 91,953
Receivables	400,997	302,130	703,127	
Inventories	20,181	36,274	56,455	-
Capital assets				
Land and other improvements	4,271,000	84,499	4,355,499	-
Other capital assets, net	10,974,156	13,286,835	24,260,991	-
Total assets	20,310,980	17,354,545	37,665,525	91,953
<u>LIABILITIES</u>				
Accounts payable	195,842	177,859	373,701	-
Accounts payable - land redemption - excess bids	13,568	-	13,568	-
Customer deposits	-	112,636	112,636	-
Commissions payable	9,324	-	9,324	-
Other accrued expenses	119,297	185,565	304,862	-
Long term liabilities - notes:				
Due within one year	424,787	672,457	1,097,244	-
Due within more than one year	4,122,419	7,287,225	11,409,644	-
Total liabilities	4,885,237	8,435,742	13,320,979	-
<u>NET ASSETS</u>				
Invested in capital assets net of debt	10,697,950	5,411,652	16,109,602	-
Restricted for capital improvements	135	-	135	-
Restricted for debt services	826,175	2,609,321	3,435,496	-
Unrestricted	3,901,483	897,830	4,799,313	91,953
Total net assets	\$ 15,425,743	\$ 8,918,803	\$ 24,344,546	\$ 91,953

See accompanying notes to financial statements

STATEMENT OF ACTIVITIES
CITY OF BROOKHAVEN, MISSISSIPPI
YEAR ENDED SEPTEMBER 30, 2003

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenue</u>	
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>		<u>Capital</u> <u>Grants and</u> <u>Contributions</u>
Functions/Programs					
Primary Government					
Governmental activities:					
General government	\$ 1,924,703	\$ 23,363	\$ 114,682	\$ -	\$ (1,786,658)
Police administration	1,551,817	-	3,000	-	(1,548,817)
Police court	121,734	-	-	-	(121,734)
Police specialized services	68,476	-	38,728	-	(29,748)
Fire administration	1,645,841	1,575	44,571	-	(1,599,695)
Building inspection	94,360	-	-	-	(94,360)
City streets	1,543,472	-	-	207,701	(1,335,771)
Traffic department	72,813	-	-	-	(72,813)
Airport	43,969	16,566	25,000	-	(2,403)
Cemetery	189,871	14,200	-	-	(175,671)
Shop and city barn	78,950	-	-	-	(78,950)
Capital projects	475,660	-	-	663,201	187,541
Debt service	251,881	-	-	-	(251,881)
Employment fund	16,060	-	-	-	(16,060)
Support appropriations	226,005	-	-	-	(226,005)
Total governmental activities	<u>8,305,612</u>	<u>55,704</u>	<u>225,981</u>	<u>870,902</u>	<u>(7,153,025)</u>
Business-type activities:					
Water and sewer	2,071,335	2,000,422	-	18,256	(52,657)
Solid waste	925,505	647,549	-	-	(277,956)
Total business-type activities	<u>2,996,840</u>	<u>2,647,971</u>	<u>-</u>	<u>18,256</u>	<u>(330,613)</u>
Total primary government	<u>\$ 11,302,452</u>	<u>\$ 2,703,675</u>	<u>\$ 225,981</u>	<u>\$ 889,158</u>	<u>\$ (7,483,638)</u>
Component units:					
Parks and recreation commission	\$ 527,524	\$ 115,784	\$ 20,982	\$ -	\$ (390,758)
Total component units	<u>\$ 527,524</u>	<u>\$ 115,784</u>	<u>\$ 20,982</u>	<u>\$ -</u>	<u>\$ (390,758)</u>

See accompanying notes to the financial statements

STATEMENT OF ACTIVITIES (continued)
CITY OF BROOKHAVEN, MISSISSIPPI
YEAR ENDED SEPTEMBER 30, 2003

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Change in net assets:				
Net (expense) revenue	\$ (7,153,025)	\$ (330,613)	\$ (7,483,638)	\$ (390,758)
General Revenues:				
Taxes:				
Property taxes	2,095,532	376,574	2,472,106	-
Penalties and interest	99,262	-	99,262	-
In lieu taxes	61,073	-	61,073	-
Franchise tax	326,532	-	326,532	-
Grand Gulf Nuclear Plant	146,863	-	146,863	-
Sales tax	3,905,874	-	3,905,874	-
Gasoline tax	16,887	-	16,887	-
Homestead reimbursement	114,124	22,551	136,675	-
Miscellaneous	171,124	2,828	173,952	-
Sale of equipment	125,615	-	125,615	-
Interest income	165,613	100,610	266,223	405
Transfers	(471,504)	41,174	(430,330)	430,330
Total general revenues and transfers	6,756,995	543,737	7,300,732	430,735
Change in net assets	(396,030)	213,124	(182,906)	39,977
Net assets - beginning	15,821,773	8,705,679	24,527,452	52,278
Net assets - ending	\$ 15,425,743	\$ 8,918,803	\$ 24,344,546	\$ 92,255

See accompanying notes to financial statements

BALANCE SHEET
GOVERNMENTAL FUNDS
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2003

	<u>General Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,660,953	\$ 1,983,693	\$ 4,644,646
Receivables:			
Sales tax	350,565	-	350,565
Special assessments	20,436	-	20,436
Property taxes	27,638	-	27,638
Other	2,358	-	2,358
Inventories	20,181	-	20,181
Total assets	<u>3,082,131</u>	<u>1,983,693</u>	<u>5,065,824</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts payable	195,842	-	195,842
Accounts payable - land redemption - excess bids	13,568	-	13,568
Commissions payable	9,324	-	9,324
Other accrued expenses	11,489	-	11,489
Total liabilities	<u>230,223</u>	<u>-</u>	<u>230,223</u>
<u>FUND BALANCES</u>			
Reserved for inventory	20,181	-	20,181
Reserved for capital improvements	-	135	135
Reserved for debt service	-	826,175	826,175
Unreserved, undesignated	2,831,727	1,157,383	3,989,110
Total fund balances	<u>2,851,908</u>	<u>1,983,693</u>	<u>4,835,601</u>
Total liabilities and fund balances	<u>\$ 3,082,131</u>	<u>\$ 1,983,693</u>	<u>\$ 5,065,824</u>

See accompanying notes to financial statements

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENT FUNDS
TO THE STATEMENT OF NET ASSETS
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30,2003

Total fund balance - total governmental funds	\$ 4,835,601
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$20,510,998, net of accumulated depreciation of \$5,265,842, are not financial resources and, therefore, are not reported in the funds.	15,245,156
Accrued compensated absences and interest expense are not reported in the funds.	(107,808)
Notes and bonds payable are not included in the funds.	<u>(4,547,206)</u>
Net assets of governmental activities.	<u><u>\$ 15,425,743</u></u>

See accompanying notes to financial statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
CITY OF BROOKHAVEN, MISSISSIPPI
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	General Fund	Other Governmental Fund	Total Governmental Funds
<u>REVENUES</u>			
General property taxes			
Current year	\$ 1,511,073	\$ 554,243	\$ 2,065,316
Prior year	21,768	8,448	30,216
Penalties and interest on			
Delinquent taxes	99,262	-	99,262
In lieu taxes	61,073	-	61,073
Franchise taxes:			
Entergy	166,009	-	166,009
Southwest Mississippi EPA	5,392	-	5,392
Entex	88,076	-	88,076
Cable TV Companies	67,055	-	67,055
Intergovernmental Revenue:			
Federal sources	207,701	663,201	870,902
State sources:			
Grand Gulf Nuclear Plant	146,863	-	146,863
Sales tax	3,905,874	-	3,905,874
State gasoline tax	16,887	-	16,887
Homestead reimbursement	96,903	17,221	114,124
Law enforcement grants	3,000	-	3,000
Small municipal grant	114,682	-	114,682
Fire protection allocation	44,571	-	44,571
Lincoln County - Airport	25,000	-	25,000
Charges for services:			
City clerk's office	23,363	-	23,363
Airport	16,566	-	16,566
Cemetery	14,200	-	14,200
Fire	1,575	-	1,575
Drug task force reimbursements	38,728	-	38,728
Interest	143,565	22,048	165,613
Miscellaneous	171,124	-	171,124
Sale of property and equipment	125,615	-	125,615
Total Revenues	<u>\$ 7,115,925</u>	<u>\$ 1,265,161</u>	<u>\$ 8,381,086</u>

See accompanying notes to financial statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
CITY OF BROOKHAVEN, MISSISSIPPI
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>EXPENDITURES</u>			
General Government	\$1,401,197	\$ -	\$ 1,401,197
Police Administration	1,770,579	-	1,770,579
Police Court	121,590	-	121,590
Police Specialized Services	68,170	-	68,170
Fire Administration	1,599,664	-	1,599,664
Building Inspection	94,360	-	94,360
City Streets	1,498,913	-	1,498,913
Traffic Department	69,902	-	69,902
Airport	46,494	-	46,494
Cemetery	181,964	-	181,964
Unemployment	16,060	-	16,060
Shop & City Barn	108,580	-	108,580
Support Appropriations	656,335	-	656,335
Debt service	73,322	571,099	644,421
Capital projects	-	475,660	475,660
Total Expenditures	<u>7,707,130</u>	<u>1,046,759</u>	<u>8,753,889</u>
Excess <deficiency> of revenues over expenditures	<u>(591,205)</u>	<u>218,402</u>	<u>(372,803)</u>
OTHER FINANCING SOURCES <USES>			
Operating transfers out	-	(41,174)	(41,174)
Net Other Financing Sources <Uses>	<u>-</u>	<u>(41,174)</u>	<u>(41,174)</u>
Net change in fund balances	(591,205)	177,228	(413,977)
Fund balances beginning	<u>3,443,113</u>	<u>1,806,465</u>	<u>5,249,578</u>
Fund balances ending	<u><u>\$2,851,908</u></u>	<u><u>\$ 1,983,693</u></u>	<u><u>\$ 4,835,601</u></u>

See accompanying notes to financial statements

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2003**

Net change in fund balances - total governmental funds	\$ (413,977)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation of \$574,943 exceeded capital outlays of \$238,848 in the current period.	(336,095)
Repayment of debt principal is an expenditure in the governmental funds, but the expenditure reduces long-term liabilities in the statement of net assets.	392,540
Compensated absences reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.	<u>(38,498)</u>
Change in net assets of governmental activities.	<u><u>\$ (396,030)</u></u>

See accompanying notes to financial statements

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2003

	<u>Water & Sewer</u> <u>Fund</u>	<u>Solid Waste</u> <u>Fund</u>	<u>Totals</u>
<u>ASSETS</u>			
Current assets:			
Cash and other deposits	\$ 3,352,340	\$ 292,467	\$ 3,644,807
Accounts receivable	266,864	-	266,864
Special assessments receivable	29,531	-	29,531
Property taxes receivable	1,471	4,264	5,735
Inventory	36,274	-	36,274
Total current assets	<u>3,686,480</u>	<u>296,731</u>	<u>3,983,211</u>
Non-current assets:			
Capital assets:			
Land	84,499	-	84,499
Fixed assets net of depreciation	13,085,195	201,640	13,286,835
Total non-current assets	<u>13,169,694</u>	<u>201,640</u>	<u>13,371,334</u>
Total Assets	<u>16,856,174</u>	<u>498,371</u>	<u>17,354,545</u>
 <u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	144,545	33,314	177,859
Customer deposits	112,636	-	112,636
Accrued interest	158,751	-	158,751
Other accrued expenses	15,607	11,207	26,814
Current portion of long term debt	672,457	-	672,457
Total current liabilities	<u>1,103,996</u>	<u>44,521</u>	<u>1,148,517</u>
Non-current liabilities:			
Notes payable	442,225	-	442,225
Bonds payable	6,845,000	-	6,845,000
Total non-current liabilities	<u>7,287,225</u>	<u>-</u>	<u>7,287,225</u>
Total liabilities	<u>8,391,221</u>	<u>44,521</u>	<u>8,435,742</u>
 <u>NET ASSETS</u>			
Invested in capital assets, net of related debt	5,210,012	201,640	5,411,652
Restricted for debt service	2,609,321	-	2,609,321
Unrestricted	645,620	252,210	897,830
Total net assets	<u>\$ 8,464,953</u>	<u>\$ 453,850</u>	<u>\$ 8,918,803</u>

See accompanying notes to financial statements

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
CITY OF BROOKHAVEN, MISSISSIPPI
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	<u>Water & Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Totals</u>
<u>OPERATING REVENUES</u>			
Charges for services:			
Water / Sewer charges	\$ 1,973,072	\$ -	\$ 1,973,072
Garbage compost and rubbish fees	-	698,542	698,542
Tap fees and construction fees	27,350	-	27,350
Miscellaneous receipts	17	2,811	2,828
Total operating revenues	<u>2,000,439</u>	<u>701,353</u>	<u>2,701,792</u>
<u>OPERATING EXPENSES</u>			
Administrative expenses	304,252	-	304,252
Water and field maintenance	414,658	-	414,658
Waste water treatment expenses	262,158	-	262,158
Water wells and plant expenses	204,662	-	204,662
Solid waste expenses	-	293,062	293,062
Solid waste personal services	-	564,727	564,727
Unemployment fund	2,420	3,520	5,940
Depreciation expense	440,626	64,196	504,822
Total operating expenses	<u>1,628,776</u>	<u>925,505</u>	<u>2,554,281</u>
Operating income (loss)	<u>371,663</u>	<u>(224,152)</u>	<u>147,511</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
Interest income	93,480	7,130	100,610
Grant revenue	18,256	-	18,256
Homestead reimbursement	5,740	16,811	22,551
Property taxes	83,451	242,130	325,581
Interest expense	(435,553)	-	(435,553)
Bond agent fees	(7,006)	-	(7,006)
Total non-operating revenue (expenses)	<u>(241,632)</u>	<u>266,071</u>	<u>24,439</u>
Income before transfers	130,031	41,919	171,950
Transfers from other funds	-	41,174	41,174
Change in net assets	<u>130,031</u>	<u>83,093</u>	<u>213,124</u>
Total net assets beginning	8,334,922	370,757	8,705,679
Total net assets ending	<u>\$ 8,464,953</u>	<u>\$ 453,850</u>	<u>\$ 8,918,803</u>

See accompanying notes to financial statements

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
CITY OF BROOKHAVEN, MISSISSIPPI
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	<u>Water & Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Totals</u>
<u>Cash flows from operating activities:</u>			
Cash received from customers	\$ 2,038,758	\$ 698,542	\$ 2,737,300
Cash payments to suppliers for goods and services	(531,508)	(289,787)	(821,295)
Cash payments to employees and professional contractors for services	(670,576)	(559,786)	(1,230,362)
Other operating revenues	17	2,811	2,828
Net cash provided (used) by operating activities	836,691	(148,220)	688,471
<u>Cash flows from non-capital financing activities:</u>			
Cash received from taxes	88,603	257,254	345,857
Transfers from other funds	-	41,174	41,174
Net cash provided by non-capital financing activities	88,603	298,428	387,031
<u>Cash flows from capital and related financing activities:</u>			
Acquisition and construction of capital assets	(66,643)	(41,174)	(107,817)
Principal paid on bonds and note obligations	(611,149)	-	(611,149)
Interest paid on bonds and note obligations	(449,673)	-	(449,673)
Bond agent fees	(7,006)	-	(7,006)
Capital grants received	18,256	-	18,256
Net cash provided (used) by capital and related financing activities	(1,116,215)	(41,174)	(1,157,389)
<u>Cash flows from investing activities:</u>			
Investment income	93,479	7,130	100,609
Net cash provided (used) by investing activities	93,479	7,130	100,609
Net increase (decrease) in cash and cash equivalents	(97,442)	116,164	18,722
Cash and cash equivalents at October 1, 2002	3,449,782	176,303	3,626,085
Cash and cash equivalents at September 30, 2003	<u>3,352,340</u>	<u>292,467</u>	<u>3,644,807</u>
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</u>			
Operating income (loss)	371,663	(224,152)	147,511
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	440,626	64,196	504,822
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	38,336	-	38,336
(Increase) decrease in special assessments	4,218	-	4,218
(Increase) decrease in inventories	(13,204)	-	(13,204)
Increase (decrease) in accounts payable	(15,596)	6,765	(8,831)
Increase (decrease) in other accruals	7,200	4,971	12,171
Increase (decrease) in customer deposits	3,448	-	3,448
Total adjustments	<u>465,028</u>	<u>75,932</u>	<u>540,960</u>
Net cash provided by operating activities	\$ 836,691	\$ (148,220)	\$ 688,471

See accompanying notes to financial statements

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
CITY OF BROOKHAVEN, MISSISSIPPI
SEPTEMBER 30, 2003

	<u>Pension & Other Employee Benefits</u>	<u>Private Purpose Trust</u>	<u>Agency Funds</u>	<u>Total</u>
<u>RESTRICTED ASSETS</u>				
Cash in bank	\$ 295,160	\$ 23,449	\$ 149,404	\$ 468,013
Taxes receivable	-		134,382	134,382
Total assets	<u>295,160</u>	<u>23,449</u>	<u>283,786</u>	<u>602,395</u>
<u>LIABILITIES</u>				
Payable other	-	-	969	969
Payable school district	-	-	247,477	247,477
Payable Chamber of Commerce	-	-	35,340	35,340
Payable Alta Insurance	200,242	-		200,242
Total liabilities	<u>200,242</u>	<u>-</u>	<u>283,786</u>	<u>484,028</u>
<u>NET FIDUCIARY ASSETS</u>	<u>\$ 94,918</u>	<u>\$ 23,449</u>	<u>\$ -</u>	<u>\$ 118,367</u>

See accompanying notes to financial statements

STATEMENT IN CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
CITY OF BROOKHAVEN, MISSISSIPPI
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	<u>Pension & Other Employment Benefits</u>	<u>Private Purpose Trust</u>	<u>Total</u>
ADDITIONS			
Interest	\$ 11,296	\$ -	\$ 11,296
Receipts	22,949	-	22,949
Total additions	<u>34,245</u>	<u>-</u>	<u>34,245</u>
DEDUCTIONS			
Equipment purchase		5,312	5,312
Refund	21,000	-	21,000
Unemployment claims	22,106	-	22,106
Total deductions	<u>43,106</u>	<u>5,312</u>	<u>48,418</u>
Change in net assets	(8,861)	(5,312)	(14,173)
Net assets - beginning	<u>103,779</u>	<u>28,761</u>	<u>132,540</u>
Net assets - end of year	<u>\$ 94,918</u>	<u>\$ 23,449</u>	<u>\$ 118,367</u>

See accompanying notes to financial statements

CITY OF BROOKHAVEN, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: Summary of Significant Accounting Policies

The City of Brookhaven, Mississippi was incorporated in 1859. The City operates under a City Board form of government, with a Mayor and seven Aldermen serving as the governing body. Elected officials include the Mayor, seven Aldermen, Police chief, City clerk, and Tax collector. The present term of these elected officials expires June 30, 2005. Services provided by the City include: Public Safety – Police and fire, Highways and Street, Sanitation, Health and Social Services, Culture and Recreation, Public Improvements, Planning and Zoning, and General Administrative Services. A public school system is available to residents of the City of Brookhaven but is not under the jurisdictions of the City government.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant GASB pronouncements and applicable FASB pronouncements and APB opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

A. Reporting Entity

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operation, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

Included in the reporting entity:

City of Brookhaven Parks and Recreation Commission

The members of the commission are appointed by the City's Board of Aldermen, and serve at their will and pleasure. This component unit selects management staff, sets user charges, and controls all aspects of its daily activities. It prepares its own budget, which is then submitted to the board for approval and funding. Separate financial statements are prepared for the Parks and Recreation Commission and may be viewed at their offices.

Excluded from the reporting entity:

Brookhaven Separate School District

The Brookhaven Separate School district is appointed primarily by the City's governing body (three of the five members). The City does not hold title to the school's assets nor does it have any right to the school's surpluses. The City does not have the ability to exercise influence over the daily operations or approve budgets.

CITY OF BROOKHAVEN, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

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. The primary government and component units are presented separately within the financial statements with the focus on the primary government. These 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 program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The city reports the following major government fund:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The city reports the following major enterprise funds:

Water and Sewer- The Water and Sewer fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Solid Waste - The Water and Sewer fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF BROOKHAVEN, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Other non-major funds:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for specific expenditure purposes. Special Revenue Funds include the UDAG, Home Program and the Parks and Recreation Commission Fund.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The primary revenue source is local property taxes levied specifically for Debt Service. Debt Service Funds are the City Bond and Interest Fund and the School bond and Interest Fund.

Capital Projects Funds – Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and Trust Funds).

Pension and other employee benefits – Pension and other employee benefits funds are used to account for assets held by the City in trustee capacity or as an agent. The unemployment fund and the Health insurance funds are reported in supplemental information.

Private Purpose Trusts – Private purpose trusts are used to account for the principal and income for all other trust arrangements that benefit individuals, private organizations, or other governments. The private purpose trusts are the Depot restoration fund, the Rose hill Cemetery fund, and the Police Comfort Bear Fund and they are reported in supplemental information

Agency Funds – Agency Funds are used by a governmental entity to report assets that are held in a custodial relationship. The government receives assets, may temporarily invest those assets and then remits those assets to individuals, private organizations, or other governments. The agency funds are the Separate School District Fund, the IDF Fund, and the Accounts Payable Clearing Fund.

C. Assets, Liabilities, and Net Assets or Equity

Cash

The City holds cash in their respective funds or component unit. The City considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

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.

Receivables

Enterprise receivables

Enterprise fund receivables include amounts due from customers primarily for utility services. There is no allowance for uncollectible accounts because these amounts have been immaterial based on prior experience.

CITY OF BROOKHAVEN, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

Receivables (continued)

Property taxes receivable

Taxes are levied annually on December 1 and are due for payment without penalty and interest by February 1. Major tax payments are received January through April. Taxes receivable represent delinquent taxes that are received within thirty days. Over time substantially all property taxes are collected.

Sales tax receivable

Sales tax receivable represents taxes that are received within thirty days from the State Tax Commission.

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in their respective fund. The costs or normal repairs and maintenance that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Long-term Debt

In the government-wide, proprietary and component unit financial statements, outstanding debt is reported as liabilities.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes.

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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 within thirty days. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

CITY OF BROOKHAVEN, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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

F. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires 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 and expenses during the reporting period. Actual results could differ from those estimates.

G. Cash Equivalents

For purposes of the statement of cash flows for the proprietary funds, the City defines cash equivalents as short term, highly liquid investments with original maturity dates of three months or less.

H. Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market.

I. Uncollectible Receivables

Uncollectible accounts receivable are reviewed quarterly with management. The accounts, which are deemed uncollectible, are charged off via the direct method of accounting for bad debts every 90-120 days.

J. Encumbrances

Purchase commitments, as evidenced by contracts and purchase orders are not recorded as encumbrances. Difference in beginning and ending receivables is immaterial.

K. Inter-fund Loans

Short-term (due within one year) inter-fund loan receivables are reported as "due from other funds" and are considered available spendable resources.

L. Restricted Assets

Restricted assets are portions of fund balance that are legally segregated for a specific future use or are not available for current operations. The following is a description of fund reserves used by the City:

Restricted for unemployment benefits – An account that represents fund balance of the unemployment compensation revolving fund, which is legally restricted for the payment of unemployment benefits.

Restricted for debt service – An account that represents the fund balance for the debt service fund resources which are legally restricted for payment of general long-term debt principal and interest amounts maturing in future years.

CITY OF BROOKHAVEN, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 2: Cash and Cash Equivalents

The City deposits funds in financial institutions selected by the Board of Aldermen.

The carrying amount of the City's deposits with financial institutions was \$8,381,406 on September 30, 2003.

All cash and checking accounts are with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) which insures the account for \$100,000. The remaining \$8,281,406 of the collateral for public entities' deposits in financial institutions is 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 entity'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 those deposits. In the event of failure of a financial institution, securities pledged by that institution should be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

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. See Note 1 K describing restricted assets.

NOTE 3: Inter-fund Receivable and Payable Balances

There were no inter-fund receivables or payables at September 30, 2003

NOTE 4: Leases

There are no equipment leases at September 30, 2003.

NOTE 5: Unemployment Compensation Fund

The City has elected to establish a revolving fund for unemployment compensation which is to be maintained in the amount of 2% of the first \$7,000 of employee wages paid in the preceding calendar year. To be fully funded there should be a balance of \$22,960 in this fund. The Unemployment Compensation Fund had a balance of \$21,053; therefore, was not fully funded at September 30, 2003.

NOTE 6: Defined Benefit Pension Plan

Plan Description

The City 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 report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary and the City is required to contribute at an auctorial determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions of \$380,543.62 on covered wages of \$3,903,005.61 to PERS for the year ending September 30, 2003, equaled the required contribution.

CITY OF BROOKHAVEN, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 7: Changes in Capital Assets

Capital asset activity for the year ended September 30, 2003 was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Deletions	
Governmental activities:				
Capital assets not being depreciated:				
Land/Land Improvements	\$ 5,408,709	\$ ----	\$ 1,137,709	\$ 4,271,000
	-----	-----	-----	-----
Other capital assets				
Building	3,614,259	64,692	1,477,212	2,201,739
Improvements Other-Bldg.	6,674,433	4,544,923	----	11,219,356
Machinery & equipment:				
Street Department	1,053,791	1,619	4,249	1,051,161
Fire Department	1,039,239	5,663	27,655	1,017,247
Police Department	460,798	64,086	103,615	421,269
Specialized Services	6,139	----	----	6,139
Shop Department	34,741	2,471	1,999	35,213
City Clerk's Office	96,883	16,771	24,366	89,288
Mayor's Office	6,806	543	3,606	3,743
Tax Collector's Office	15,125	----	9,981	5,144
City Court	26,176	----	4,347	21,829
Building Inspector	21,184	----	2,975	18,209
Airport	62,910	6,037	17,752	51,195
Cemetery	67,011	----	2,810	64,201
JTAPP	6,765	----	1,603	5,162
Traffic Control	32,485	----	3,382	29,103
	-----	-----	-----	-----
Total other capital assets at historical cost	13,218,745	4,706,805	1,685,552	16,239,998
	-----	-----	-----	-----
Less accumulated depreciation for				
Buildings	(415,793)	(40,057)	----	(455,850)
Streets, gutters and drains	(2,227,684)	(255,862)	----	(2,483,546)
Concrete bridges	(106,419)	(5,601)	----	(112,020)
Airport	(350,709)	(15,200)	----	(365,909)
Other improvements	(729,020)	(101,450)	----	(830,470)
Equipment	(861,274)	(156,773)	----	(1,018,047)
	-----	-----	-----	-----
Total accumulated depreciation	(4,690,899)	(574,943)	----	(5,265,842)
	-----	-----	-----	-----
Other capital assets, net	8,527,846	4,131,862	1,685,552	10,974,156
	-----	-----	-----	-----
Governmental activities capital Assets, net	<u>\$ 13,936,555</u>	<u>\$ 4,131,862</u>	<u>\$ 2,823,261</u>	<u>\$ 15,245,156</u>

CITY OF BROOKHAVEN, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 7: Changes in Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Governmental activities:

General Government	\$ 428,053
Street Department	41,730
Fire Department	35,683
Police Department	55,418
Special Services	306
Shop	2,240
Airport	3,191
Cemetery	4,895
JTAPP	516
Traffic	2,911

Total governmental activities depreciation expense	<u>\$ 574,943</u>
---	-------------------

	Primary Government			
	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 84,499	\$ ----	\$ ----	\$ 84,499
	-----	-----	-----	-----
Other Capital Assets:				
Plant and Systems	18,508,753	37,943	----	18,546,696
Machinery and Equipment	1,679,050	69,874	(199,977)	1,548,947
	-----	-----	-----	-----
Total other capital assets At historical cost	20,187,803	107,817	(199,977)	20,095,643
	-----	-----	-----	-----
Less accumulated depreciation for:				
Plant and Systems	(5,170,099)	(384,313)	----	(5,554,412)
Machinery and Equipment	(1,212,488)	(120,510)	78,602	(1,254,396)
	-----	-----	-----	-----
Total accumulated depreciation	(6,382,587)	(504,823)	78,602	(6,808,808)
	-----	-----	-----	-----
Other capital assets net	13,805,216	(397,006)	(121,375)	13,286,835
Business type activities	-----	-----	-----	-----
Capital assets, net	<u>\$13,889,715</u>	<u>\$ (397,006)</u>	<u>\$ (121,375)</u>	<u>\$13,371,334</u>

Depreciation expense was charged to functions as follows:

Business-type activities:

Water and Sewer	\$ 440,627
Solid Waste	64,196
Total business type activities depreciation expense	<u>\$ 504,823</u>

CITY OF BROOKHAVEN, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 8: Long term liability activity for the year ended September 30, 2003

The following is a summary of transactions of the City for the year ended September 30, 2003:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental Activities				
Bonds and notes payable:				
General obligation bonds	\$ 4,205,000	\$ ----	\$ 335,000	\$ 3,870,000
General obligation notes	324,833	----	21,226	303,607
Revenue notes	<u>409,913</u>	<u>----</u>	<u>36,314</u>	<u>373,599</u>
Total bonds and Notes payable	<u>\$ 4,939,746</u>	<u>\$ ----</u>	<u>\$ 392,540</u>	<u>\$ 4,547,206</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-type activities				
Bonds and notes payable				
Water and Sewer:				
General obligation debt	\$ 2,636,233	\$ ----	\$ 332,543	\$ 2,303,690
Revenue debt	<u>5,934,599</u>	<u>----</u>	<u>278,607</u>	<u>5,655,992</u>
Total bonds and Notes payable	<u>\$ 8,570,832</u>	<u>\$ ----</u>	<u>\$ 611,150</u>	<u>\$ 7,959,682</u>

All liabilities of the City of Brookhaven are secured by the full faith and credit of the municipality. Accrued compensated absences expire at year end and are classified as current liabilities.

General Obligation and Revenue debt service requirements, including interest for the next five years and to maturity are as follows:

<u>Year ending September 30, 2003</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 424,787	\$ 235,000	\$ 672,457	\$ 409,797
2005	447,112	208,028	713,810	366,538
2006	477,265	188,929	645,213	325,659
2007	504,976	159,487	686,667	287,565
2008	197,288	128,259	743,173	246,628
thereafter	<u>2,495,778</u>	<u>767,283</u>	<u>4,498,362</u>	<u>816,490</u>
	<u>\$ 4,547,206</u>	<u>\$1,686,986</u>	<u>\$ 7,959,682</u>	<u>\$ 2,452,677</u>

CITY OF BROOKHAVEN, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE 9: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 10: Contingencies – Pending or Threatened Litigation

According to the city attorney, there are currently three matters under litigation and a fourth matter is pending in which there is a motion to dismiss. The board of aldermen is aware of these cases and the city's liability insurance should cover these contingencies.

In the matter of the extension of the boundaries of the City of Brookhaven for the annexation of approximately 16.6 square miles, parties are awaiting the decision of the court. The city is prepared to implement a service and facilities plan to meet the annexation demands.

NOTE 11: Change in accounting principles:

GASB No. 34 was implemented by the City in 2003. The City's infrastructure and the related debt as well as the accrual basis accounting are reflected in the Government-wide financial statements. This new application of accounting principles will not be consistent with prior years. Account groups will no longer appear in the financial statements but will be reflected in the Government-wide 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. The primary government and component units are presented separately within the financial statements with the focus on the primary government. 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 user 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. The revenues are subject to externally imposed restrictions to these program 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.

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
CITY OF BROOKHAVEN, MISSISSIPPI
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Original Budget	Revisions	Final Budget	Total Actual	Variance
<u>REVENUES</u>					
General property taxes					
Current year	\$ 1,879,333	\$ 16,000	\$ 1,895,333	\$ 1,511,073	\$ (384,260)
Prior year	15,515	15,500	31,015	21,768	(9,247)
Penalties and interest on					
Delinquent taxes	45,000	5,000	50,000	99,262	49,262
Licenses and permits	59,000	5,000	64,000	73,464	9,464
In lieu taxes	59,360	1,700	61,060	61,073	13
Franchise taxes	350,000	(5,000)	345,000	326,532	(18,468)
Intergovernmental revenue:					
Federal sources	-	196,377	196,377	207,701	11,324
State sources:					
Grand Gulf Nuclear Plant	145,000	1,860	146,860	146,863	3
Sales tax	3,850,000	(14,000)	3,836,000	3,905,874	69,874
State gasoline tax	12,275	-	12,275	16,887	4,612
Homestead reimbursement	46,990	40,000	86,990	96,903	9,913
Law enforcement grants	9,000	-	9,000	3,000	(6,000)
Airport grant	36,000	-	36,000	-	(36,000)
Small municipal grant		137,000	137,000	114,682	(22,318)
Fire protection allocation	40,000	-	40,000	44,571	4,571
Lincoln County - airport	25,000	-	25,000	25,000	0
Charges for services:					
City clerk's office	15,000	6,500	21,500	23,363	1,863
Airport	14,000	26	14,026	16,566	2,540
Cemetery	12,000	4,000	16,000	14,200	(1,800)
Fire	1,000	400	1,400	1,575	175
Drug task force reimbursements	46,000	(5,800)	40,200	38,728	(1,472)
Fines and forfeitures	171,000	50,000	221,000	225,209	4,209
Interest	100,000	30,000	130,000	143,565	13,565
Miscellaneous	121,450	25,938	147,388	163,497	16,109
Sale of property and equipment	13,000	16,226	29,226	125,615	96,389
Rent	1,800	-	1,800	1,650	(150)
Airport fuel and oil	57,000	-	57,000	60,386	3,386
Total Revenues	\$ 7,124,723	\$ 526,727	\$ 7,651,450	\$ 7,469,007	\$ (182,443)

See accompanying notes to financial statements

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET TO ACTUAL
CITY OF BROOKHAVEN, MISSISSIPPI
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	<u>Original Budget</u>	<u>Revisions</u>	<u>Final Budget</u>	<u>Total Actual</u>	<u>Variance</u>
<u>EXPENDITURES</u>					
General government	\$ 1,257,279	\$ 246,520	\$ 1,503,799	\$ 1,701,520	\$ (197,721)
Police administration	1,756,750	86,548	1,843,298	1,770,579	72,719
Police court	120,069	2,118	122,187	121,590	597
Police specialized services	66,087	2,331	68,418	68,170	248
Fire administration	1,665,087	(27,408)	1,637,679	1,599,664	38,015
Building inspection	97,305	472	97,777	94,360	3,417
City streets	1,119,870	556,877	1,676,747	1,498,913	177,834
Traffic department	93,328	(15,061)	78,267	69,902	8,365
Airport	166,858	10,203	177,061	106,880	70,181
Cemetery	170,795	9,250	180,045	181,964	(1,919)
Unemployment	-	-	-	16,060	(16,060)
Shop and city barn	164,198	(33,635)	130,563	108,580	21,983
Support appropriations	646,350	9,985	656,335	656,335	-
Total expenditures	<u>7,323,976</u>	<u>848,200</u>	<u>8,172,176</u>	<u>7,994,517</u>	<u>177,659</u>
Excess <deficiency> of revenues over expenditures	<u>(199,253)</u>	<u>(321,473)</u>	<u>(520,726)</u>	<u>(525,510)</u>	<u>(4,784)</u>
OTHER FINANCING SOURCES <USES>					
Debt service	(94,359)	-	(94,359)	(73,322)	21,037
Cap loan repayment	6,854	-	6,854	7,627	773
Operating transfers out	(85,730)	-	(85,730)	-	85,730
Net other financing sources <uses>	<u>(173,235)</u>	<u>-</u>	<u>(173,235)</u>	<u>(65,695)</u>	<u>107,540</u>
Excess <deficiency> of revenues and other financing sources over expenditures and other uses	<u>\$ (372,488)</u>	<u>\$ (321,473)</u>	<u>\$ (693,961)</u>	<u>(591,205)</u>	<u>\$ 102,756</u>
Fund balance beginning of year				<u>3,443,113</u>	
Fund balance ending of year				<u>\$ 2,851,908</u>	

* There were three instances totaling \$215,700 in which expenditures in the General Fund exceeded the budgeted amounts.

See accompanying notes to financial statements

SUPPLEMENTARY INFORMATION

CITY OF BROOKHAVEN, MISSISSIPPI
SURETY BOND SCHEDULE
SEPTEMBER 30, 2003

<u>Name</u>	<u>Position</u>	<u>Amount</u>
Iris C. Rudman	City Clerk	\$ 100,000
Michael Jinks	Bookkeeper	50,000
Brenda Lee Smith	Payroll Clerk	50,000
Marsha G. Fairman	Deputy City Clerk	100,000
Bonita Bullock	Mayor's Secretary	5,000
Patricia Duckworth	City Tax Collector	100,000
Elsie Smith	Tax Collector's Clerk	50,000
Janet Richardson	Clerk-Tax Office (temporary)	50,000
Jerrald Nations	City Judge	50,000
Kathy Allen	City Court's Clerk	50,000
Phyllis Watkins	City Court's Clerk	50,000
Marie Patton	Clerk-City Barn	25,000
Jennifer Peets	Bookkeeper – Water Dept.	50,000
Salinda Washington	Clerk – Water Dept.	50,000
Holly Smith	Clerk – Water Dept.	50,000
James E. Arnold	Superintendent – Solid Waste	50,000
Steve Moreton	Purchasing Agent	50,000
Renita Monegan	Building Inspector Clerk	50,000
Arlustra Henderson	Chief of Police	50,000
Nolan Jones	Assistant Police Chief	25,000
Donna Davis	Dispatcher	50,000
Patricia Diamond	Dispatcher	50,000
Larry Dale Burt	Dispatcher	50,000
Jennifer R. Allen	Dispatcher	50,000
George Lambright	Dispatcher	50,000
Marvin Nesmith	Dispatcher	50,000
Willie Smith	Transfer Station	50,000
Jerry Case	Transfer Station	50,000
L. D. Burnett	Animal Control Officer	5,000
Boyce Bullock	Airport Manager	50,000
Jerry Wilson	Alderman	50,000
Terry Bates	Alderman	50,000
John Allen	Alderman	50,000
Les Bumgarner	Alderman	50,000
Dorsey Cameron	Alderman	50,000
Robert Massengill	Alderman	50,000
Tom Smith	Alderman	50,000

Additionally, all policemen are bonded individually for a minimum of \$25,000.

The bonding company for the above scheduled bond is Western Surety Company.

CITY OF BROOKHAVEN, MISSISSIPPI
RECONCILIATION OF ORIGINAL AD VALOREM TAX ROLLS TO FUND COLLECTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

<u>ASSESSED VALUATION AND MILLAGE:</u>	<u>Municipal</u>	<u>School</u>	
Realty	\$ 42,142,423	\$ 31,256,915	
Personal	9,857,384	12,811,982	
Personal – Auto (From County)	3,463,330	23,658,159	
Utilities	3,985,538	3,845,721	
Less: Special Homestead	<5,054,454 >	<4,521,607 >	
	-----	-----	
<u>Total Municipal @ 90.69 Mills</u>	<u>\$ 54,394,221</u>		\$ 4,933,012
<u>Total School @ 58.14 Mills</u>		<u>\$ 67,051,170</u>	3,898,355

COLLECTIONS ADJUSTMENTS:

Add:

Municipal Homestead Reimbursement	136,675
Additional Privilege-Heavy Trucks	202,921
Prior Year Tax Collection	113,521
Penalties and Interest	80,141
In Lieu of Taxes	61,073

Less: School Regular Homestead Credit < 280,517 >

Total to be Accounted For -----
\$ 9,145,181

COLLECTION CREDIT:

	<u>Taxes</u>	<u>Homestead</u>	<u>Total</u>	
Municipal General Fund	\$ 1,710,076	\$ 96,903	\$ 1,806,979	
School Funds	6,369,551	----	6,369,551	
City Bond Fund	247,647	17,221	264,868	
School Bond Fund	315,043	----	315,043	
Water & Sewer Bonds	83,450	5,740	89,190	
Solid Waste Fund	242,131	16,811	258,942	
	-----	-----	-----	
<u>Total</u>	<u>\$ 8,967,898</u>	<u>\$ 136,675</u>	<u>\$ 9,104,573</u>	\$ 9,104,573

BALANCE REPRESENTED BY:

Unpaid Property taxes	34,460
Immaterial Difference	6,148

<u>Total Accounted For</u>	<u>\$ 9,145,181</u>

CITY OF BROOKHAVEN, MISSISSIPPI
COMBINED SCHEDULE OF LONG-TERM DEBT
SEPTEMBER 30, 2003

<u>Date of Issue</u>	<u>Name of Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Balance Outstanding 10-1-02</u>
<u>General Obligation Bonds:</u>				
<u>General Long-Term Debt Fund</u>				
03-01-87	Renovation, Remodeling And Air Conditioning Brookhaven Schools	\$ 3,600,000	6.75 – 8.0	\$ 1,390,000
11-01-99	Renovation-Whitworth College	3,000,000	4.90 – 6.625	2,815,000
<u>Water and Sewer Fund</u>				
11-01-84	Water and Sewer Bonds Series 1984	1,000,000	9.4 – 10.5	280,000
12-01-88	Waste Water Plant	4,000,000	6.4 – 9.1	2,160,000

<u>Total General Obligation Bonds</u>				<u>\$ 6,645,000</u>
<u>Revenue Bonds:</u>				
<u>Water and Sewer Fund</u>				
03-01-00	Sewer Improvements Series 2000	2,225,000	5.50	2,020,000
11-01-98	Sewer Improvements	3,960,000	3.65 – 6.10	3,595,000

<u>Total Revenue Bonds</u>				<u>\$ 5,615,000</u>
<u>Notes Payable (General Obligation):</u>				
12-06-95	Mississippi Department of Economic Development	55,800	4.25	23,266
02-11-97	Mississippi Department of Economic Development	584,910	3.7	409,913
06-18-02	Mississippi Department of Economic Development	303,789	4.0	301,567
11-12-02	Mississippi Department of Economic Development	200,000	3.0	196,233
<u>Notes Payable (Revenue):</u>				
01-07-97	Mississippi Department of Economic Development	459,373	3.7	319,599

<u>Total Notes Payable</u>				<u>\$ 1,250,578</u>
<u>Total Long – Term Debt</u>				<u>\$13,510,578</u>

New Issued	Redeemed	Balance Outstanding 9-30-03	Maturities Next Period	
			Principal	Interest
\$ ----	\$ 240,000	\$ 1,150,000	\$ 260,000	\$ 66,575
----	95,000	2,720,000	105,000	143,519
----	85,000	195,000	95,000	15,119
----	240,000	1,920,000	260,000	125,170
-----	-----	-----	-----	-----
<u>\$ ----</u>	<u>\$ 660,000</u>	<u>\$ 5,985,000</u>	<u>\$ 720,000</u>	<u>\$ 350,383</u>
----	110,000	1,910,000	115,000	105,050
----	140,000	3,455,000	165,000	148,653
-----	-----	-----	-----	-----
<u>\$ ----</u>	<u>\$ 250,000</u>	<u>\$ 5,365,000</u>	<u>\$ 280,000</u>	<u>\$ 253,703</u>
----	5,987	17,279	6,246	613
----	36,314	373,599	37,680	13,188
----	15,239	286,328	15,861	11,105
----	7,543	188,690	7,772	5,539
----	28,607	290,992	29,685	10,266
-----	-----	-----	-----	-----
<u>\$ ----</u>	<u>\$ 93,690</u>	<u>\$ 1,156,888</u>	<u>\$ 97,244</u>	<u>\$ 40,711</u>
<u>\$ ----</u>	<u>\$ 1,003,690</u>	<u>\$ 12,506,888</u>	<u>\$ 1,097,244</u>	<u>\$ 644,797</u>

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

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Community Development Block Grant/ Economic Development Initiative (BOOSPMS0210)	14.246		\$ 151,140
Community Development Block Grant/ Economic Development Initiative (B99SPMS0167)	14.246		324,121
Total HUD			<u>475,261</u>
U.S. Department of Transportation:			
Pass-through program from Mississippi Department of Transportation:			
Highway Planning and Construction	20.205	STP-9514-00 (001)/ 46-9514-00-001-10	207,701
Total Expenditures of Federal Awards			<u>\$ 682,962</u>

See accompanying notes to schedule of expenditures of federal awards.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
CITY OF BROOKHAVEN
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 the City of Brookhaven and is presented on the 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.

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

March 18, 2004

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

Honorable Mayor and Board of Alderman
City of Brookhaven
Brookhaven, Mississippi 39601

We have audited the financial statements of the City of Brookhaven, as of and for the fiscal year ended September 30, 2003, and have issued our report thereon dated March 18, 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 a part of obtaining reasonable assurance about whether City of Brookhaven, 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 test disclosed the following instance of noncompliance that is required to be reported under Government Auditing Standards.

Finding: We noted three instances totaling \$215,700 in which the expenditures in the general fund exceeded the final budget.

Recommendation: We recommend that expenditures not be made in excess of budgeted amounts.

Response: We concur.

Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Brookhaven, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. We noted no matters involving the internal control over financial reporting and its operation that we consider to 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 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 we consider the reportable condition described above to be a material weakness

This report is intended solely for the information and use of the Mayor and Board of Aldermen, others within the organization, the State Department of Audit, 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.

Verbalee B. Watts
Verbalee B. Watts and Associates
Certified Public Accountants
Brookhaven, Mississippi
March 18, 2004

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

March 18, 2004

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

Honorable Mayor and Board of Alderman
City of Brookhaven
Brookhaven, Mississippi 39601

Compliance

We have audited the compliance of the City of Brookhaven, 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 Brookhaven, 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 Brookhaven, Mississippi's management. Our responsibility is to express an opinion on City of Brookhaven, 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 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 non-compliance 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 Brookhaven, Mississippi 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 on City of Brookhaven, Mississippi's compliance with those requirements.

In our opinion, the City of Brookhaven, 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 Brookhaven, Mississippi, is responsible to establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Brookhaven, 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 the 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 the 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. Our consideration of the internal control over compliance 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor and Board of Alderman, others within the organization, State Department of Audit, 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.

Verbalee B. Watts
Verbalee B. Watts and Associates
Certified Public Accountants
Brookhaven, Mississippi
March 18, 2004

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

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the City of Brookhaven.
2. One reportable condition was disclosed during the audit of the financial statements and disclosed in the Report on Compliance and Internal Control on page 45 of the audit report.
3. One instance of noncompliance material to the general purpose financial statements of the City of Brookhaven was disclosed during the audit and reported in the Report on Compliance and Internal Control on page 45 of the audit report.
4. There were no audit findings relative to major federal award programs for the City of Brookhaven.
5. The auditor's report on compliance for the major federal award programs for the City of Brookhaven expresses an unqualified opinion on all major federal programs.
6. The programs tested as major programs included:

<u>CFDA #</u>	<u>Program Name</u>
14.246	Community Development Block Grants/Development Initiative
20.205	Highway Planning and Construction

7. The threshold for distinguishing Types A and B programs was \$300,000.
8. The City of Brookhaven was determined to be a high-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS:

There were no reportable conditions with regard to federal award programs. Non-compliance with state budgetary laws was disclosed on page 45 of the audit report.

FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS

There were no findings related to the federal award programs for the fiscal year ended 9/30/03.

CITY OF BROOKHAVEN, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2003

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

2000-2 Community Development Block Grants / Development Initiative – CFDA No. 14.246;
Grant # B 99 – SP – MS – 0167; year ended September 30, 2000

Statement of Condition: Legal and Professional fees were charged against this grant which were attributable to a Bond Issue which funded additional construction on this same project. These fees were not budgeted in the grant application.

Recommendation: All expenditures should be compared to budgeted funds available for grant.

Current Status: The recommendation was adopted in June 2001. No similar findings were noted in the 2002 or the 2003 audit.