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City of Diamondhead

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April 23, 2014

Office of the State Auditor
P.O. Box 956
Jackson, Mississippi 39205

Re: Annual Municipal Audit

Accompanying this letter is a copy of the annual audit of the city of Diamondhead, Mississippi, for the fiscal year ended September 30, 2013. In connection with this audit, a separate management letter was written to the City of Diamondhead. Enclosed you will find a copy of this management letter along with the audit reports.

Sincerely,

Kristin Ventura
City Clerk

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Comprehensive Annual Financial Report

City of Diamondhead, Mississippi
For the Fiscal Year Ended September 30, 2013





City of Diamondhead, Mississippi

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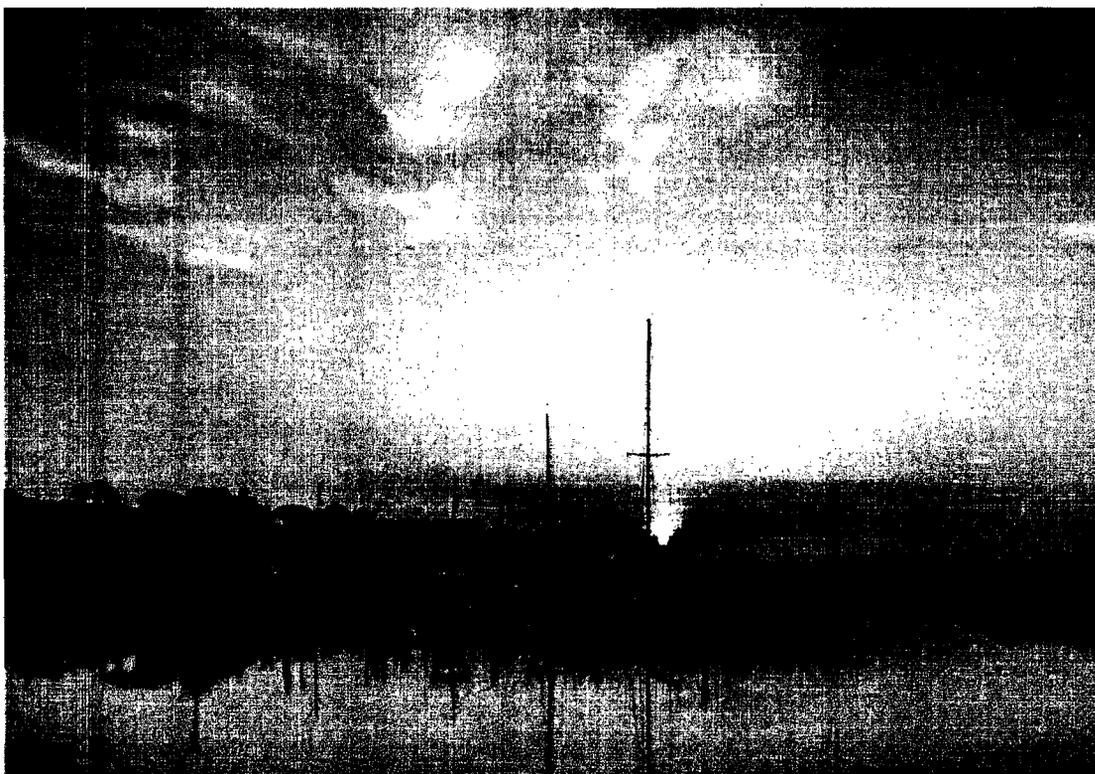
City of Diamondhead, Mississippi

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INTRODUCTORY SECTION



Letter of Transmittal

April 1, 2014

To the Honorable Mayor, Members of the City Council and
Citizens of the City of Diamondhead, Mississippi:

State statutes require that the City of Diamondhead publish annual audited financial statements for each fiscal year. The Comprehensive Annual Financial Report (CAFR) of the City of Diamondhead, Mississippi, for the fiscal year ended September 30, 2013, is submitted in compliance with this requirement.

City management assumes full responsibility for the completeness and reliability of the information presented in this report, based upon a comprehensive framework of internal control established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements.

This letter of transmittal provides a non-technical summary of City finances, economic prospects, and achievements. Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview and analysis of the City's basic financial statements. MD&A compliments this letter of transmittal and should be read in conjunction with it.

The City contracted with Wright, Ward, Hatten & Guel, PLLC, a firm of Certified Public Accountants, to perform the annual independent audit. The auditors expressed an opinion that the City's financial statements for the fiscal year ended September 2013 are fairly stated in conformity with accounting principles in the United States. This is the most favorable conclusion and is commonly known as an "unmodified" or "clean" opinion. The independent auditors' report is located at the front of the financial section of this report.

CITY OF DIAMONDHEAD PROFILE

The City of Diamondhead was named after the popular area known as Diamond Head, Hawaii. This Hawaiian influence is applied throughout Diamondhead. Most of the roads are named with Hawaiian names, the various community centers have a Hawaiian look, including prominent Kona/Tahitian roof lines. Originally Diamondhead was designed by the developers in the 1970s to appeal to an older demographic looking for a place to retire within a comfortable drive from New Orleans, Gulfport and Biloxi. Over time it has slowly changed from a retirement community to a variety of age groups. As more residents consist of younger families. The City incorporated in January 2012 and the City Charter, under which it is presently governed, was adopted in February 2012.

Diamondhead is located in southeastern Hancock County, Mississippi with its boundaries encompassing approximately 12 square miles. Diamondhead and its neighboring cities form the Mississippi Gulf Coast, one of Mississippi's largest tourist destinations. The City's population is currently estimated at 8,593 residents. Diamondhead operates under a council-manager form of government as provided by its Charter. The Mayor and five City Council members are elected and serve overlapping four-year terms. The City Council directly appoints officers (City Attorney, City Clerk, City Manager, and City Judge) who have full responsibility for carrying out City Council policies and administering day-to-day City operations. Since the City is newly established the City contracts with Hancock County to provide law enforcement services. Fire protection services are provided by the independent Diamondhead Fire District, water and sewer services are provided by the independent Diamondhead Water and Sewer District. The recreational facilities for residents are provided by the Property Owners Association.

The annual budget serves as the foundation for Diamondhead's financial planning and control. The City Council formally adopts the budget and legally allocates, or appropriates, available monies for the City's various funds. On or before the second regular Council meeting in August, the City Manager submits to the City Council a proposed budget for the fiscal year commencing the following October 1. The budget includes proposed expenditures and the means of financing. Two public hearings are held prior to the final budget adoption in order to obtain taxpayer comments. In September, the budget is legally enacted through passage of an ordinance. The ordinance sets the maximum legal expenditure limit for the ensuing fiscal year. Expenditures must be defined to the minimum level prescribed by the Mississippi State Auditor; this would be the purpose level. Appropriations may be amended, with strict guidelines, during the year.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements may be best understood when it is considered from the broader perspective of the specific economic environment within which the City of Diamondhead operates.

The Local Economy:

The City of Diamondhead's tax revenue base consists of property and retail. Being a newly established City, the economic conditions and outlook of the City can only be a bright one. The City has joined the Gulf Coast Community with City personnel actively participating in various organizations and committees to promote business and keep informed of economic opportunities for the City. City personnel are also pursuing federal and state grants that will assist the City in providing services to its citizens. The following categories represent key indicators affecting Diamondhead's economic and financial success:

Property Values

Diamondhead enjoys strategic advantages related to its location, climate and natural resources. The City benefits from the assessed valuation of the properties contained within the City boundaries. These assessed valuations, even though reduced from historical highs after the destruction of Hurricane Katrina, results in Diamondhead having a higher property tax value than most of the surrounding municipalities in the Mississippi Gulf Coast area. Median house value of \$191,542 is above the state average of \$99,000 as of 2011.

Employment

Employment in the Diamondhead geographical area is diverse. Top employment sectors of manufacturing and construction (23%), professional, scientific, and technical services (15%), retail and wholesale trade (15%), government (12%), top executives and management (10%), arts and recreation (9%), waste management services (7%), personal care services (5%), and life and physical scientists (4%) comprise the workforce. The local unemployment rate of 7.8% remains below the State average of 8.6% and slightly higher than the National average of 7.7% as of July 2013.

Education

Quality education is also the centerpiece of a successful community. Over 96% of citizens over the age of 25 hold a high school or higher education. Diamondhead is within approximately 50 miles from seven colleges and universities that maintain a student population of over 2000 each.

LONG-TERM FINANCIAL PLANNING

The fiscal health of Diamondhead City Government remains strong. As outlined in the Management's Discussion and Analysis beginning on page 10, the City has maintained a healthy financial position through sound fiscal management. The City has a strong fiscal discipline, healthy reserves, and constant review of operations being ever vigilant to find new efficiencies and cost reduction measures. Achieving and maintaining fiscal stability requires many elements all working in concert with one another.

MAJOR INITIATIVES

The City of Diamondhead's adopted fiscal year 2013/14 budget anticipates a moderate increase in revenues with a continued focus on efficient spending to maintain services to the community. Key issues and initiatives include reinvesting in the workforce, building a high-performance organization, addressing deferred maintenance at city facilities, ensuring financial sustainability by improving support of tourism events, and developing economic development and transportation strategies.

AWARD AND ACKNOWLEDGEMENTS

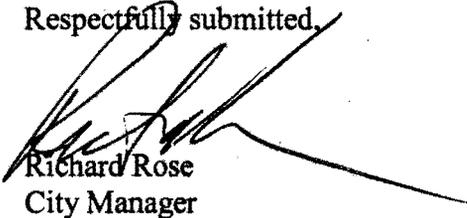
Certificates of Achievement

This is the first year for the City to submit its Comprehensive Annual Financial Report (CAFR) to the Government Finance Officers Association of the United States and Canada (GFOA). In order to be awarded a Certificate of Achievement, a government has to publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR meets the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for an award.

Acknowledgments

The preparation of this report would not have been possible without the talent, effort, and dedication of the entire staff of the Finance Department and the City's independent public accountants, Wright, Ward, Hatten & Guel, PLLC. I wish to thank all City departments for their assistance in providing the data necessary to prepare this report. I also wish to express my sincere appreciation to the Mayor and City Council for their support in maintaining the highest standards of professionalism in planning and conducting the financial affairs of the City of Diamondhead.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Richard Rose', is written over the typed name. The signature is fluid and cursive, extending to the right across the line.

Richard Rose
City Manager



City of Diamondhead, Mississippi Elected Officials

Mayor Thomas E. Schafer, IV

Council Members

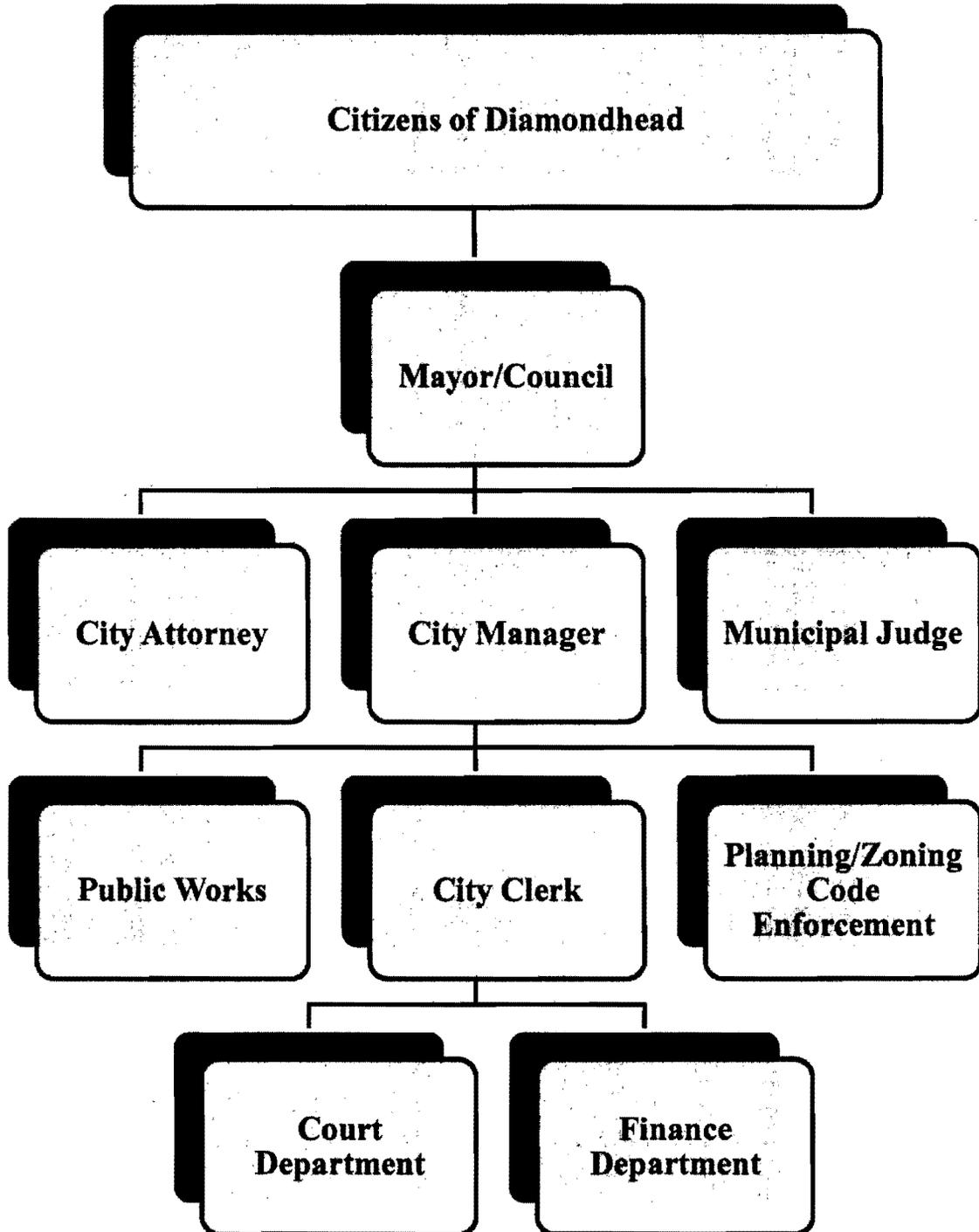
Ernie Knobloch	At-Large
Joseph G. Lopez	Ward 1
Blaine G. LaFontaine	Ward 2
Thomas A. Sislow	Ward 3
Ron Rech	Ward 4

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City of Diamondhead, Mississippi Organizational Chart



FINANCIAL SECTION

City of Diamondhead



Mississippi



City of Diamondhead, Mississippi

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WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants

HANCOCK BANK BUILDING

2510 - 14TH STREET

P. O. BOX 129

GULFPORT, MISSISSIPPI 39502

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April 1, 2014

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Diamondhead, Mississippi

We have audited the accompanying financial statements of the governmental activities and the aggregate fund information of City of Diamondhead, Mississippi (the City), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the aggregate remaining fund information of the City of Diamondhead, Mississippi, as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 10-17 and 38-39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Diamondhead, Mississippi's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them. In addition, the State of Mississippi requires that municipalities submit a schedule of surety bonds maintained for city personnel in compliance with § 21-17-5 of Mississippi Code of 1972. This schedule has been presented on page 40. This schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of surety bonds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated April 1, 2014, on our consideration of the City of Diamondhead's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Diamondhead's internal control over financial reporting and compliance.

Other Reporting Required by State of Mississippi

In accordance with State of Mississippi, we have also issued our report dated April 1, 2014, on our consideration of the City of Diamondhead's compliance with state laws and regulations. The purpose of that report is to describe the scope of our testing of internal controls over compliance with state laws and regulations and the result of that testing, and not to provide an opinion on internal controls or compliance. That report is an integral part of an audit performed in accordance with state guidelines in considering the City of Diamondhead's internal control over financial reporting and compliance.

Wendell Wend White & Sons



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Diamondhead, Mississippi's (the City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal year ended September 30, 2013 and the initial period of eight months ended September 30, 2012. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow, along with the letter of transmittal, and other portions of this CAFR.

The City adopted provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position*. Readers should note that GASB 63 changes the previous classification of net assets to net position and consistency the Statement of net assets to the Statement of net position. Additional information regarding this change can be found in the notes to the financial statements.

Current Year Financial Highlights

- The total assets of the City exceeded total liabilities for the fiscal year ended September 30, 2013 by \$58,796,987 (net position). Of this amount \$1,541,318 (unrestricted net position), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position increased \$58,714,549 in fiscal year ended September 30, 2013, due primarily to capital assets contributed to the City which included land and streets from the Diamondhead Property Owner's Association.
- General revenues amounted to \$4,004,849 or 6% of total revenues. Program revenues amounted to \$59,628,955 or 94% of total revenues due to the above mentioned capital contribution.
- Capital assets were purchased in the amount of \$190,443 in 2013 primarily for vehicles and public works machinery under a capital lease. Along with the capital contribution of streets and land in the amount of \$59,320,080, an additional \$87,255 of capital assets was contributed to the city by various governmental and other organizations. Depreciation expense recorded for year ended September 30, 2013, was \$2,266,366.
- As a result of the additional assets purchased under capital leases, \$300,000 was owed to Hancock Bank as of September 30, 2013.

Current Year Fund Highlights

- *General Fund* – This fund is used for the general operations of the City. Total General Fund revenues of \$63,633,804 and expenditures of \$62,335,276 include the capital assets contributions from various organizations. General Fund operations (not including the capital asset contributions and subsequent capital outlay expenditures) resulted in \$4,189,371 in revenues and \$2,890,843 in expenditures for 2013.



City of Diamondhead

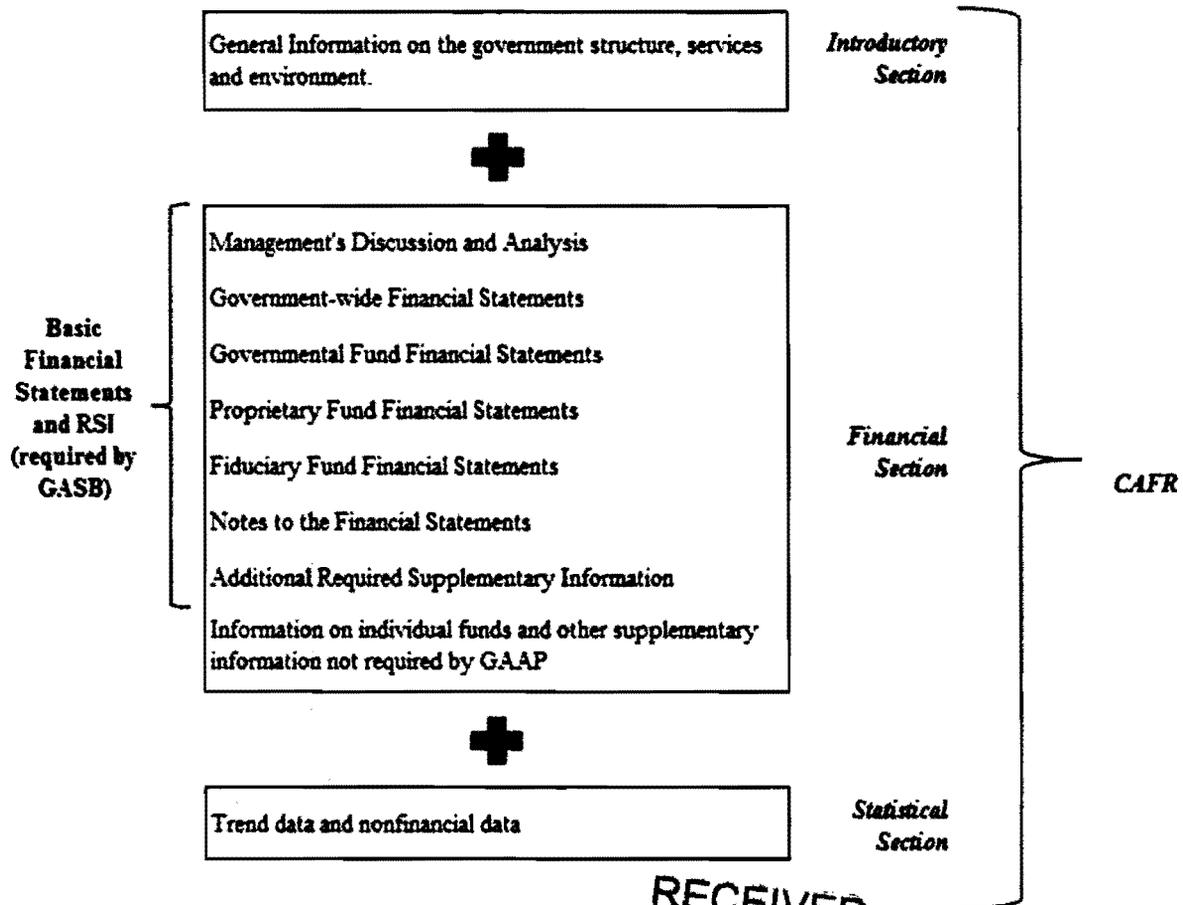
Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Position and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending.

In addition, this report also contains other supplementary information.

Relationship Between Comprehensive Annual Financial Report (CAFR) and Basic Financial Statements and Required Supplementary Information (RSI)



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Reporting the City of Diamondhead as a Whole

Statement of Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The Statement of Position and the Statement of Activities answer this question.

These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net position and the changes in that position. This change in position is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of City capital assets will also need to be evaluated.

In the Statement of Position and the Statement of Activities, the City's activities are reported as governmental activities, which include all of the City's services including general government, public safety, public works and economic development. The City of Diamondhead has no component units.

Governmental Funds

The City's governmental funds focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to the City's residents. The relationship (or differences) between governmental activities (reported in the Statement of Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds

Fiduciary Funds show amounts held by the City for the benefit of others and clearing accounts used by the City to track payroll expenditures.

Fund Financial Statements

Fund financial reports provide detailed information about the City's major fund. Since the City is a newly established city it reports only one fund: The General Fund. As the need arises, the City will establish other funds as appropriate for each individual use.

The City of Diamondhead as a Whole

Recall that the Statement of Net Position and Statement of Activities look at the City as a whole. Table 1 and Table 2 provide a summary of the City's net position and activities for the fiscal year and the initial eight month period ended September 30, 2013 and 2012.



City of Diamondhead

TABLE 1
City of Diamondhead, Mississippi
Condensed Statements of Net Position
September 30, 2013 and 2012

	Governmental Activities		
	2013	2012	Change
Assets			
Current assets	\$ 1,727,746	226,161	1,501,585
Capital assets	57,506,476	175,064	57,331,412
Total Assets	59,234,222	401,225	58,832,997
Liabilities			
Current liabilities	\$ 180,444	218,659	(38,215)
Long-term liabilities	256,791	100,128	156,663
Total Liabilities	\$ 437,235	318,787	118,448
Net position			
Investment in capital assets, net of related debt	\$ 57,206,476	74,936	57,131,540
Restricted	49,193	-	49,193
Unrestricted	1,541,318	7,502	1,533,816
Total Net Position	\$ 58,796,987	82,438	58,714,549

TABLE 2
City of Diamondhead, Mississippi
Condensed Statement of Activities
For the Fiscal Year ended September 30, 2013 and
the Initial Period ended September 30, 2012

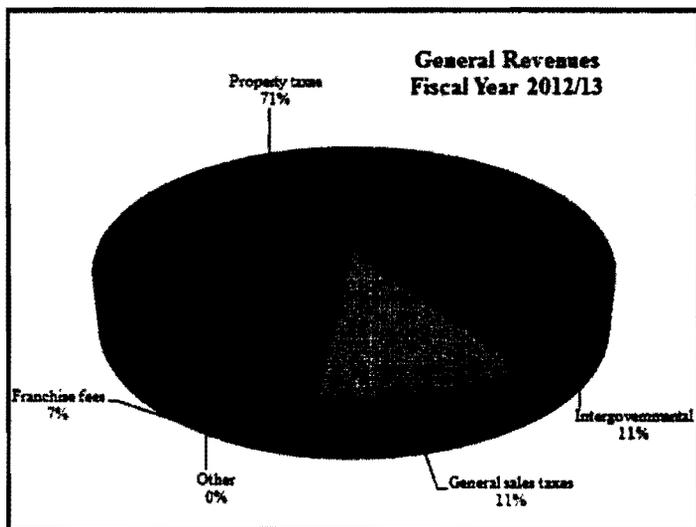
	Governmental Activities		
	2013	2012	Change
Revenues:			
Program revenues:			
Charges for services	\$ 115,233	1,700	113,533
Operating grants and contributions	37,098	1,000	36,098
Capital grants and contributions	59,476,624	19,912	59,456,712
Total program revenues	59,628,955	22,612	59,606,343
General revenues	4,004,849	448,669	3,556,180
Total revenues	63,633,804	471,281	63,162,523
Expenses:			
General government	1,155,041	335,801	819,240
Public safety	604,749	53,042	551,707
Public works	3,043,832	-	3,043,832
Economic development	113,188	-	113,188
Interest on long-term debt	2,445	-	2,445
Total expenses	4,919,255	388,843	4,530,412
Increase (Decrease) in net position	58,714,549	82,438	58,632,111
Net position - beginning	82,438	-	82,438
Net position - ending	\$ 58,796,987	82,438	58,714,549

Governmental Activities



City of Diamondhead

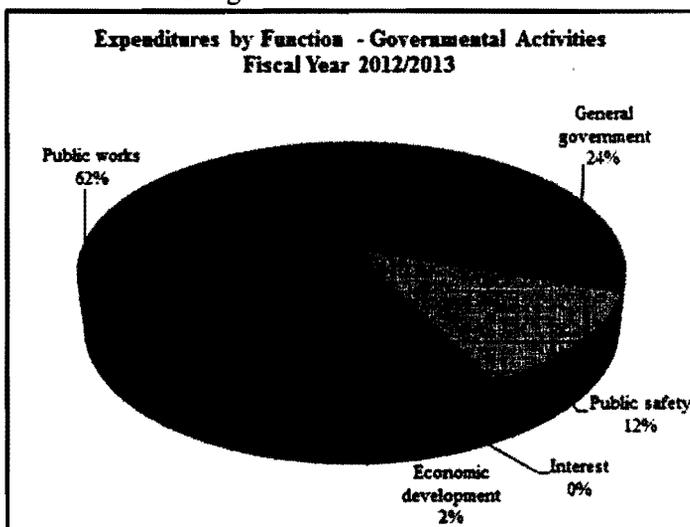
In fiscal year 2013, governmental activities increased the City's net position by \$58,714,549. This increase is primarily capital contributions. Capital asset contributions were recorded in 2013 for the amount of fair value of the streets, land, and other assets in the amount of \$59,444,434. Other operating and capital grants for this period totaled \$69,288. The City continues to seek grants and assistance from various other governmental agencies to help provide support for the City's various responsibilities to its citizens as reflected by the increase in operating and capital grants (without the capital contribution of assets) in the amount of \$48,376 from 2012 to 2013.



General revenues such as property, franchise, and privilege taxes are not shown by program, but are used to support program activities citywide. Property taxes of \$2,856,941 provided the most funding of the general revenues of the City. Sales taxes of \$454,352 reflect a steady growth. The City has negotiated new franchise agreements with utility companies that generated \$255,824 for the year.

Income from intergovernmental of \$431,701 reflects shared local and shared sources including homestead exemption reimbursement and pro-rata road and bridge taxes.

The public works function is the largest expense for the City during the year ended September 30, 2013. This is largely due to the depreciation expense recorded on infrastructure for the period. The cost of general government was 24% while economic development was 2% of total expenses.



Public safety expenses make up 12% of total expenses and primarily consist of payments made to Hancock County under an interlocal agreement for the County to provide police protection within the City's municipal borders.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Funds are created and segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Governmental funds are used to account for tax-supported activities.



City of Diamondhead

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable and nonspendable resources. Such information may be useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use at the end of the fiscal year. These funds are accounted for by using the modified accrual basis of accounting. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds. As of the end of the current year, the City of Diamondhead utilized only the General Fund and will establish additional fund types as they become necessary.

General Fund

The General Fund, the chief operating fund of the City, had an unassigned fund balance of \$1,556,709 at the end of fiscal year ended September 30, 2013. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 2% of total fund expenditures at the close of year.

Overall, the General Fund's performance resulted in revenues exceeding expenditures for the fiscal year ended September 30, 2013 by \$1,598,400. In an effort to build reserves to provide funding for future capital projects, including streets and drainage maintenance, the City has attempted to operate at the lowest possible cost to its citizens by relying strongly on volunteers and seeking other funding sources.

General Fund Budgeting Highlights

The City's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. Governmental auditing standards require that cities present budgetary comparison schedules as required supplementary information to the financial statements. The most significant budgeted fund is the General Fund.

During the course of 2013, the City amended its general fund budget. All recommendations for a budget change come from the City Clerk to the Council for approval. State law does not allow budget changes that modify functional levels of budget amounts within a department without council approval. With the General Fund supporting many of our major activities, such as our police and court departments, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets as of September 30, 2013 and 2012, total \$57,506,476 and \$175,064, respectively (net of accumulation depreciation). Capital assets include land, streets, vehicles, machinery, equipment, furniture and fixtures.

During the year, the City received approximately \$59,320,080 in land and streets and \$124,353 of vehicles and equipment from various organizations to assist City employees with performing services for the City's citizens. Other additions to capital assets were purchased in the amount of \$153,345 using funds provided by grants and capital leases. Depreciation expense for the year totaled \$2,266,366. Detailed information can be found in the notes to the financial statements on page 34 of this report.

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City of Diamondhead

Debt Administration

At the end of fiscal years 2013 and 2012, the City had capital lease obligations of \$300,000 and \$100,128, respectively. As of fiscal year ended September 30, 2013, accrued compensated absences totaled \$15,391. Detailed information concerning the City's debt can be found on page 35 of this report.

Current Financial Related Activities and Economic Climate

Challenges facing the City at this time are large; however, the Council recognizes its responsibility to use sound fiscal judgment when dealing with issues that arise. The City is looking for ways to improve citizen services with the least amount of cost of government. At present, the City relies heavily on volunteers and donations. We welcome new applicants and encourage everyone to volunteer their unique talents. Our City is stronger as a result of the many who continue to donate their time and skills.

The City has adopted a 25-year Comprehensive Plan and Zoning Ordinance to fulfill our incorporation goal of enacting municipal planning and zoning and enabling building inspections and code enforcement. A Planning and Zoning Commission of seven citizens, all volunteers, was appointed by the city Council in March 2012.

As a cost savings measure to the City, the Council decided not to join the Public Retirement System. At the time of our decision, the employee contribution was 8% and the employer's contribution was 12%. Today, the employee contribution is 9% and the employer's contribution is 15.75%. It is feared that the employer contributions could grow even higher in the future. The Council chose to adopt instead a retirement plan that would match employee's voluntary contributions up to 8%, not to exceed \$5,000 per year. This decision not only saved the City money, now and in the future, it also has allowed the City to recruit and hire some of the Gulf Coast's top experienced former municipal employees at a fraction of the salary that it would have had to pay for such experience personnel otherwise.

The City held its first general elections on June 4, 2013, and the citizens elected a new mayor (chairman of the council) and three new council members. The previous mayor and council members were selected from an applicant process by the Secretary of State to serve as the City's representatives until such time that the citizens could select their own representation through an election process. The City is divided into four wards and each represented by a council member along with one council member-at-large.

We are now participating in the Multi-Jurisdictional Hancock County Hazard Mitigation Program which will allow the City to make some improvements to the new city hall in order to meet storm requirements and to locate an Emergency Management Center in our city hall. We are also exploring options that will make our community less vulnerable to future disaster storm surges.

We are a young city; but, we are very vibrant. We have accomplished much in our first year, and we have a long way to go before we catch up to our fellow municipalities. We are striving to learn from others and to adopt the best proven practices. We want to remain one of the safest communities and cleanest communities on the Gulf Coast. We have a residential area that is second to none; we will strive to ensure that our business area measures up to the residential standard.



City of Diamondhead

Contact the City's Financial Management

Questions about this report or requests for additional financial information may be addressed to:

Kristin Ventura, City Clerk
City of Diamondhead, Mississippi
5000 Diamondhead Circle
Diamondhead, MS 39525
(228) 222-4626

FINANCIAL STATEMENTS





City of Diamondhead, Mississippi

Statement of Net Position
September 30, 2013

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash	\$ 1,526,913
Taxes receivable	151,010
Grants and other receivable	49,823
Total current assets	<u>1,727,746</u>
Capital assets	
Nondepreciable assets	34,095
Depreciable assets (net of accumulated depreciation)	57,472,381
Total capital assets	<u>57,506,476</u>
Total Assets	<u>\$ 59,234,222</u>
Liabilities	
Current liabilities	
Accounts payable and accrued expenses	\$ 61,321
Accrued wages	58,759
Payable to other government agencies	1,764
Capital leases - due in less than one year	58,600
Total current liabilities	<u>180,444</u>
Noncurrent liabilities	
Accrued compensated absences	15,391
Capital leases - due in more than one year	241,400
Total noncurrent liabilities	<u>256,791</u>
Total Liabilities	<u>\$ 437,235</u>
Net Position	
Net investment in capital assets	\$ 57,206,476
Restricted	
Grants	49,193
Unrestricted	1,541,318
Total Net Position	<u>\$ 58,796,987</u>

The notes to these financial statements are an integral part of this statement



City of Diamondhead, Mississippi

Statement of Activities
For the Fiscal Year Ended September 30, 2013

Functions/Programs	Expenses	Program Revenues			Net Expense/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 1,155,041	1,192	8,603	11,250	(1,133,996)
Public safety	604,749	48,240	-	72,052	(484,457)
Public works	3,043,832	-	28,495	59,393,322	56,377,985
Economic development	113,188	65,801	-	-	(47,387)
Interest on long-term debt	2,445	-	-	-	(2,445)
Total governmental activities	\$ 4,919,255	\$ 115,233	\$ 37,098	\$ 59,476,624	54,709,700

General Revenues:

Taxes:	
Property taxes	2,856,941
General sales taxes	454,352
Franchise Fees	255,824
Intergovernmental	
State and local shared revenue	431,701
Interest income	2,905
Other revenue	3,126
Total general revenues	4,004,849
Change in net position	58,714,549
Net position - beginning	82,438
Net position - ending	\$ 58,796,987

The notes to these financial statements are an integral part of this statement



City of Diamondhead, Mississippi

Balance Sheet – Governmental Funds
September 30, 2013

	<u>General Fund</u>
ASSETS	
Cash	\$ 1,526,913
Taxes receivable	151,010
Grants and other receivable	<u>49,823</u>
Total Assets	<u>\$ 1,727,746</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable and accrued expenses	\$ 61,321
Accrued wages	58,759
Due to other governments	<u>1,764</u>
Total Liabilities	<u>121,844</u>
Fund Balances:	
Restricted	49,193
Unassigned	<u>1,556,709</u>
Total Fund Balances	<u>1,605,902</u>
Total Liabilities and Fund Balances	<u>\$ 1,727,746</u>

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The notes to these financial statements are an integral part of this statement



City of Diamondhead, Mississippi

Reconciliation of Governmental Funds Balances Sheet to the Statement of Net Position September 30, 2013

Total Fund Balance - Governmental Funds \$ 1,605,902

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.

Land	\$ 34,095	
Infrastructure	59,285,985	
Mobile equipment	117,677	
Furniture and equipment	56,470	
Leased property under capital leases	279,938	
Accumulated depreciation	<u>(2,267,689)</u>	
		57,506,476

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Compensated absences payable	(15,391)	
Capital lease payable	<u>(300,000)</u>	
		<u>(315,391)</u>

Net Position of Governmental Activities \$ 58,796,987

The notes to these financial statements are an integral part of this statement



City of Diamondhead, Mississippi

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds For the Fiscal Year Ended September 30, 2013

	General Fund
Revenues:	
Property taxes	\$ 2,856,941
Intergovernmental	500,990
General sales taxes	454,352
Franchise fees	255,824
Licenses and permit fees	65,801
Fines and forfeitures	48,240
Investment earnings	2,905
Charges for services	1,192
Miscellaneous income	3,126
Contribution of operating and capital assets	59,444,433
Total Revenues	63,633,804
Expenditures:	
General government	1,151,205
Public safety	576,167
Public works	795,198
Economic development	112,483
Debt service:	
Principal	100,000
Interest and other charges	2,445
Capital outlay	59,597,778
Total Expenditures	62,335,276
Excess of Revenues over Expenditures	1,298,528
Other Financing Sources:	
Proceeds from short-term loans	100,000
Proceeds from capital leases	199,872
Total Other Financing Sources	299,872
Net change in fund balances	1,598,400
Fund balances - beginning	7,502
Fund balances - ending	\$ 1,605,902

The notes to these financial statements are an integral part of this statement



City of Diamondhead, Mississippi

Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances to the Statement of Activities For the Fiscal Year Ended September 30, 2013

Net Change in Fund Balances - Governmental Funds \$ 1,598,400

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 estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 59,597,778	
Depreciation expense	<u>(2,266,366)</u>	57,331,412

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds

Capital leases issued	(199,872)	
Proceeds of short-term borrowing	(100,000)	
Payments of short-term loans	<u>100,000</u>	(199,872)

Some items reported in the Statement of Activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues/expenditures in governmental funds. This activity is:

Changes in compensated absences	<u>(15,391)</u>	
---------------------------------	-----------------	--

Change in net position of governmental activities \$ 58,714,549

The notes to these financial statements are an integral part of this statement

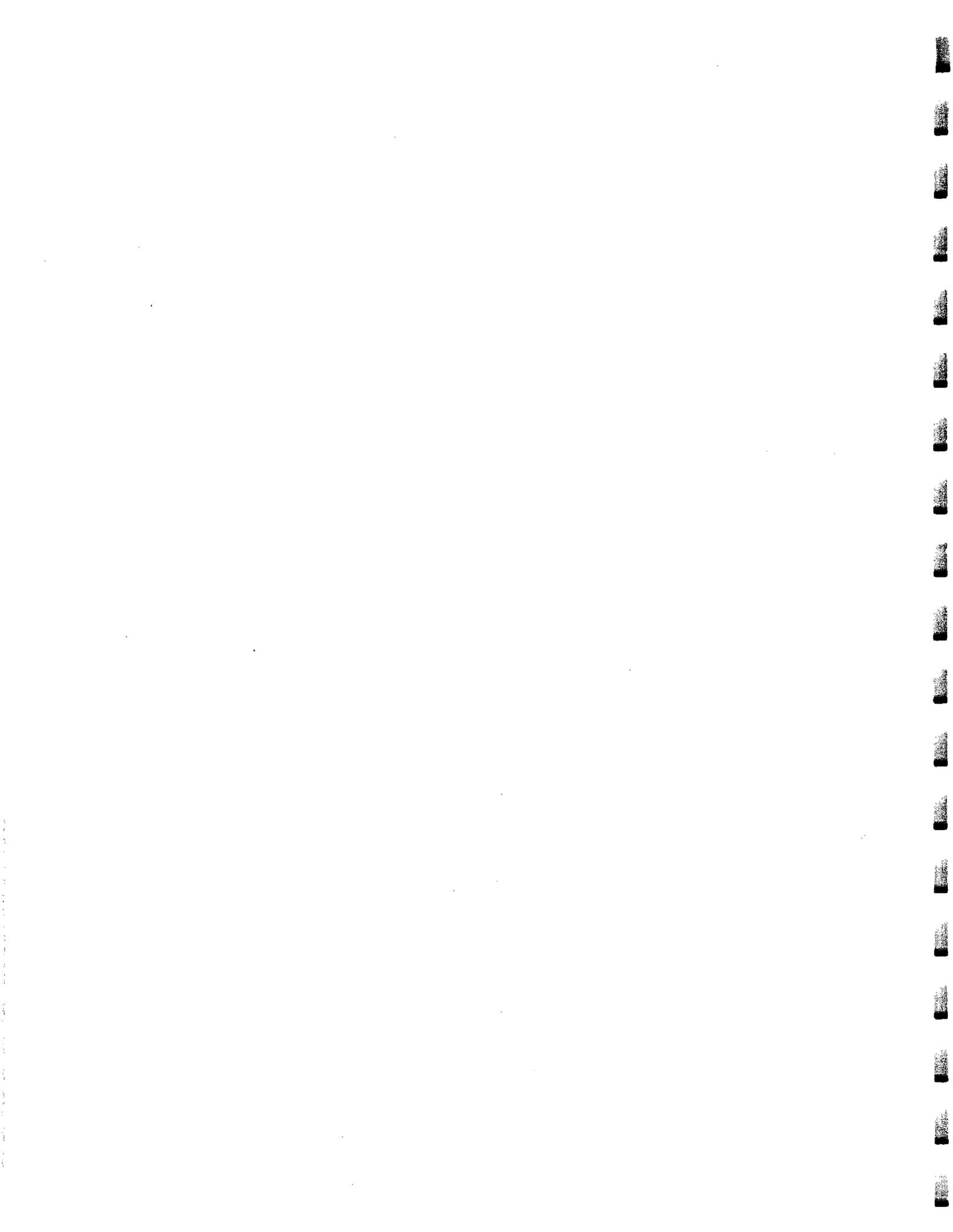


City of Diamondhead, Mississippi

Reconciliation of the Statement of
Revenues, Expenditures and Changes
In Fund Balances to the Statement of Activities
For the Fiscal Year Ended September 30, 2013

	<u>Payroll</u> <u>Clearing Account</u>
Assets	
Cash	\$ 11,439
Total Assets	<u>11,439</u>
Liabilities	
Accrued liabilities	<u>11,439</u>
Total Liabilities	<u>\$ 11,439</u>

The notes to these financial statements are an integral part of this statement





City of Diamondhead, Mississippi

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

I - Summary of Significant Accounting Policies

The City of Diamondhead, Mississippi, (the "City") was incorporated January 30, 2012 under the laws of the State of Mississippi. The City is a municipal corporation governed by a five member council and mayor. Diamondhead operates under a council-manager form of government as provided by its Charter. The Mayor and five City Council members are elected and serve four-year terms. The City Council directly appoints officers (City Attorney, City Clerk, City Manager, and Presiding Judge) who have full responsibility for carrying out City Council policies and administering day-to-day City operations. Since the City is newly established, many municipal services including police and fire protection are contracted with Hancock County, Mississippi.

The accounting and reporting policies of the City relating to the funds and accounts groups included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America 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). The more significant accounting policies of the City are described below.

A. Financial Reporting Entity

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the City's governing board. As defined by accounting principles generally accepted in the United States of America, the City is considered a "primary government."

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in Accounting Principles Generally Accepted in the United States of America. 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 operations, and accountability for fiscal matters.

The other 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 City 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 government's reporting entity. The following are excluded from the reporting entity:

Diamondhead Fire District, Diamondhead Water and Sewer District and Diamondhead Property Owner's Association

These potential component units have separate elected and/or appointed boards and provide services to residents, generally within the geographic boundaries of the City. These are excluded from the reporting entity because the City does not have the ability to exercise influence or control over their daily operations, approve budgets or provide funding.



City of Diamondhead, Mississippi

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

I - Summary of Significant Accounting Policies (continued)

B. Basis of Presentation.

The City's basic financial statement consist of government-wide statements, including a Statement of Net Position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the City as a whole. The statements include all non-fiduciary activities of the primary government. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues.

The Statement of Net Position presents the financial condition of the governmental activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements:

Municipality fund financial statements are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. The City, at present, has only one fund, the general fund which is the primary governmental fund for the City.

C. Measurement Focus and Basis of Accounting.

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Shared revenues are recognized when the provider recognizes the liability to the City. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized only when payment is due. Property taxes, state appropriations and



City of Diamondhead, Mississippi

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

federal awards are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period.

I - Summary of Significant Accounting Policies

The City reports the following major governmental fund:

General Fund - This is the City's primary operating fund. It is used to account for all activities of the general government for which a separate fund has not been established.

Additionally, the City reports the following fund type:

Agency Funds - This fund accounts for deposits and other monies collected or held by the City, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

D. Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association.

E. Deposits and Investments

State law authorizes the City to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any City, municipality or school district of this state. Further, the City may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, and all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the City did not invest in any governmental securities during the fiscal year.

F. Capital Assets

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.



City of Diamondhead, Mississippi

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land.

I - Summary of Significant Accounting Policies

The following schedule details those thresholds and estimated useful lives:

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	N/A
Infrastructure	0	20 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	5-10 years
Leased property under capital leases	*	*

* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

G. Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources during the current period. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

H. Compensated Absences.

In accordance with generally accepted accounting principles, the City has adopted a policy of compensation for accumulated unpaid employee leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements. In fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

During the fiscal year ended September 30, 2013, the city modified its benefit package which now requires that all vacation time be used prior to calendar year end and does not accumulate from year to year. The compensated absences liability reflects the total of cash payments that would be made upon employee termination or retirement for the balance of vacation and, under strict limitations, comp-time accrued at the end of the fiscal year. Employees have no claim for accumulated sick leave at termination, for retirement, lay-off, or cause. As such, no provision for unused sick leave has been provided in the financial statements.



City of Diamondhead, Mississippi

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

I - Summary of Significant Accounting Policies

I. Fund Balance Policies

In the fund financial statements, governmental funds report fund balance into classifications that comprise a hierarchy based on the extent to which the City is bound to honor constraints on the specific purpose for which amount in those funds can be spent. The classifications of fund balance are Nonspendable, Restricted, Committed, Assigned, and Unassigned.

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form, such as inventories and prepaid items, or because resources legally or contractually required to be maintained intact. The City did not have nonspendable fund balances as of September 30, 2013.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the Mayor and City Council, the City's highest level of decision-making authority. This formal action is an order of the Mayor and City Council as approved in the board minutes. The City did not have committed fund balances as of September 30, 2013.

Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not classified as nonspendable and is neither restricted nor committed. Assignments of fund balance are created by management pursuant to authorization established by the Council. The City did not have assigned fund balances as of September 30, 2013.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for specified expenditures, restricted resources are considered spent before unrestricted resources. Within unrestricted resources, committed would be considered spent first (if available), followed by assigned (if available), and then unassigned amounts.

J. Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net investment in Capital Assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

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City of Diamondhead, Mississippi

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

I - Summary of Significant Accounting Policies

Restricted net position - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net position - All other net assets not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

K. Revenues and Receivables

Property Taxes

Hancock County bills and collects the real, personal, and auto ad valorem taxes for the City for a commission of 2% of gross collections not to exceed \$40,000 per year. Taxes on real and personal property are levied by the Council by September 15 for the ensuing fiscal year, which begins October 1. Restrictions associated with property tax levies vary with the statutory authority. State law limits the amount of increase in certain property taxes.

Real property taxes become a lien on January 1 and personal property taxes become a lien on March 1 of the current calendar year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicle and mobile homes become a lien and are due in the month that coincides with the month of original purchase. All taxes collected are remitted monthly to the City. In addition, Hancock County also remits to the City a pro-rata share of road and bridge taxes collected by the County. Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue when received. Real property taxes are recognized as revenue when received because most delinquent real property taxes are collected by selling real property for taxes, together with all fees, penalties and damages accruing until date of sale, before the close of the fiscal year. The remaining amount of real property not sold for taxes at the tax sale is considered immaterial; therefore, no end of year delinquent taxes receivable is recorded. The amount of delinquent personal property taxes unpaid at year-end is also considered immaterial.

The rates are expressed in terms of mills. The combined tax rate to finance general government services, including the payment of principal and interest on long-term debt and other purposes for the year ended September 30, 2013 has been provided in the statistical section of these financial statements at page 49 of this report.

Intergovernmental Revenues in Governmental Funds

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.



City of Diamondhead, Mississippi

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

I - Summary of Significant Accounting Policies

Capital Contributions

Assets contributed by other organizations and governmental agencies are recorded at fair value at the time of the contribution. In the governmental fund statements, an equal amount of expense by function is recorded for capital assets that will not be capitalized because it does not meet the capitalization threshold. The fair value of these assets is recorded as operating grants in the Statement of Activities. Those assets received that will be capitalized are recorded as capital outlay in the fund statements and capital grant revenues in the Statement of Activities.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

M. Implementation of New Accounting Principles

Governmental Accounting Standards Board Statement No. 60

The City adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement modifies financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The City is not engaged in service concession arrangements at this time.

Governmental Accounting Standards Board Statement No. 61

The City adopted the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. This Statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity and financial reporting entity display and disclosure requirements. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

Governmental Accounting Standards Board Statement No. 62

The City adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement directly incorporates the applicable guidance from Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure, issued on or before November 30, 1989, into the state and local government accounting and financial reporting standards, with the provisions modified, as appropriate, to recognize the effects of the governmental environment and the needs of governmental financial statement users without affecting the substance of the applicable guidance.



City of Diamondhead, Mississippi

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

I - Summary of Significant Accounting Policies

Governmental Accounting Standards Board Statement No. 63

The City adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. It also identifies net position as the residual of all other elements presented in a statement of financial position, or the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. As implied above, this Statement changes the previous classification of net assets to net position, and consequently the statement of net assets to the statement of net position.

II - Stewardship, Compliance and Accountability

A. Budgetary and Budgetary Accounting

The procedures used by the City in establishing budget are mandated by Mississippi State law. A brief summary of the City's policies for recording budgetary data in the financial statements are as follows:

1. Prior to August 1, the Mayor submits to the Mayor and City Council a proposed operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. No later than September 15, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental and proprietary funds.
5. Budgets for the governmental and proprietary funds are adopted on a cash basis except for expenditures which include those paid within 30 days of the fiscal year end as required by state statute.

B. Budgetary - GAAP Reporting Reconciliations

Annual budgets are adopted for the major and nonmajor governmental funds. Budgetary comparisons, presented in the required supplementary information section of this report, are on the budgetary basis. Certain adjustments are necessary to compare actual data on a GAAP versus budget basis. These reconciling adjustments can be found in the notes to the required supplementary information.



City of Diamondhead, Mississippi

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

III – Detailed Notes on All Funds

A. Cash

A summary of cash at September 30, 2013 is as follows:

	<u>Unrestricted</u>	<u>Cash on Hand</u>	<u>Total</u>
Governmental funds			
General Fund	\$ 1,526,713	200	1,526,913
Fiduciary Funds			
Payroll Clearing Fund	11,439	-	11,439
Total cash	<u>\$ 1,538,152</u>	<u>200</u>	<u>1,538,352</u>

The carrying amount of the city's total deposits with financial institutions at September 30, 2013, was \$1,538,152, and the bank balance was \$1,679,867.

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 Miss. Code Ann. (1972), §27-105-5. 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 would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

B. Receivables and Revenues

Receivables at September 30, 2013, consisted of the following:

<u>Decription</u>	<u>Amount</u>
Taxes receivable:	
General sales tax	\$ 72,078
Franchise fees	78,932
Grants receivable	49,193
Payroll tax refund receivable	630
Total receivable	<u>\$ 200,833</u>

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Sales Taxes

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Diamondhead) back to the City monthly. Sales tax revenue was \$454,352 for the year ended September 30, 2013. Sales tax receivable is included in taxes receivable on the statement of net position and balance sheet – governmental funds. Sales tax receivable consists of taxes collected by the State for August and September 2013 and not received by the City until October and November 2013.



City of Diamondhead, Mississippi

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

III – Detailed Notes on All Funds – Receivables and Revenues (continued)

Franchise Fees

The City of Diamondhead has negotiated franchise agreements with Cable One, Inc. and Coast Electric Power Association to grant these companies the right to construct, operate and maintain public utility services in the City of Diamondhead. These fees are set by City ordinance and range from 2% to 5% of gross receipts or sales within the municipal limits. Franchise fees collected were \$255,824 for the year ended September 30, 2013. Franchise fees receivable are included in taxes receivable on the statement of net position and balance sheet – governmental funds.

C. Capital Assets

The following is a summary of capital assets activity for the year ended September 30, 2013:

	Balance 10/1/2012	Additions	Balance 9/30/2013
<u>Non-depreciable capital assets:</u>			
Land	\$ -	34,095	34,095
Total non-depreciable capital assets	-	34,095	34,095
<u>Depreciable capital assets:</u>			
Infrastructure	-	59,285,985	59,285,985
Mobile equipment	-	117,677	117,677
Furniture and equipment	-	56,470	56,470
Leased property under capital leases	176,387	103,551	279,938
Total depreciable capital assets	176,387	59,563,683	59,740,070
<u>Depreciation:</u>			
Infrastructure	-	2,223,224	2,223,224
Mobile equipment	-	6,533	6,533
Furniture and equipment	-	3,804	3,804
Leased property under capital leases	1,323	32,805	34,128
Total accumulated depreciation	1,323	2,266,366	2,267,689
Total depreciable capital assets, net	175,064	57,297,317	57,472,381
Governmental activities capital assets, net	\$ 175,064	57,331,412	57,506,476



City of Diamondhead, Mississippi

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

III – Detailed Notes on All Funds - Capital Assets (continued)

In January 2013, the Diamondhead Property Owner’s Association gifted the City with all private streets and the land on which the guard Quonset sits upon at the community entrance owned by the organization prior to the City’s incorporation. This acquisition has been recorded on the books at estimated fair value at the time of acceptance in the amount of \$59,320,080.

Depreciation expense was charged to the following governmental functions:

General government	844
Public safety	28,582
Public works	2,236,235
Economic development	705
	<u>2,266,366</u>

D. Long-term Debt

Transactions for the year ended September 30, 2013 are summarized as follows:

	Balance 10/1/2012	Additions	Retirements	Balance 9/30/2013	Due Within one Year
Obligations under Capital Leases	\$ 100,128	199,872	-	300,000	58,600
Tax Anticipation Loan	-	100,000	(100,000)	-	-
Compensated Absences	-	15,391	-	15,391	-
	<u>\$ 100,128</u>	<u>315,263</u>	<u>(100,000)</u>	<u>315,391</u>	<u>58,600</u>

Tax Anticipation Note Series 2012 – In June 2012, the City entered into an agreement with Hancock Bank to issue, as authorized by Miss. Code Ann. (1972), §27-33-325.1, to issue a note not to exceed \$300,000 to raise money for current expenses of the City in anticipation of the ad valorem taxes to be collected in FY2013. In May 2013, \$100,000 was withdrawn under this agreement and reimbursed within the same month due to the City determining that advanced funding was not needed.

Obligations under Capital Leases – The City has entered into a lease agreement as lessee for financing the acquisition of heavy equipment, vehicles, building, and certain small equipment needs. This lease agreement qualifies as capital leases for accounting purposes (titles transfer at the end of the lease terms). The lease with Hancock Bank carries an interest rate of 1.18% and will be payable over 5 years beginning April 2014. The present value of the net minimum lease payments as of September 30, 2013 is \$300,000.



City of Diamondhead, Mississippi

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

III – Detailed Notes on All Funds – Long-term Debt (continued)

Annual debt service requirements to maturity for this capital lease is as follows:

September 30	Principal	Interest	Total
2014	\$ 58,600	7,670	66,270
2015	59,292	2,849	62,141
2016	59,992	2,149	62,141
2017	60,700	1,441	62,141
2018	61,416	725	62,141
	\$ 300,000	14,834	314,834

Legal Debt Margin - The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the the last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2013, the amount of outstanding debt was equal to 0% of the latest property assessments.

E. Deferred Compensation Plan

Plan Description: The Mississippi Deferred Compensation Plan, offered through the Mississippi Public Employees’ Retirement System, is a supplemental retirement savings plan authorized under Section 457 of the Internal Revenue Code and enacted by the Mississippi State Legislature.

The assets of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. The requirements of Internal Revenue Code Section 457(g) prescribe that the City does not own the amounts deferred by employees, including related income on those amounts. Additionally, the City does not have fiduciary accountability for the plan. Accordingly, the assets and the liability for compensation deferred by plan participants, including earnings on plan assets, are not included in the City’s financial statements.

Funding Policy: The City matches an employee's contributions on a dollar for dollar basis up to a maximum of 8% of the employee’s salary or \$5,000 per fiscal year, whichever is less. The City contributed \$16,786 to the deferred compensation plan for the fiscal year ended September 30, 2013. The City did contribute in fiscal year ended September 30, 2012.



City of Diamondhead, Mississippi

Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

IV – Other Information

A. Risk Management

Claims and Judgments - 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.

Litigation - The City is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the City with respect to the various proceedings. However, the City's legal counsel believes that ultimate liability resulting from these proceedings will not have a material adverse effect on the financial condition of the City.

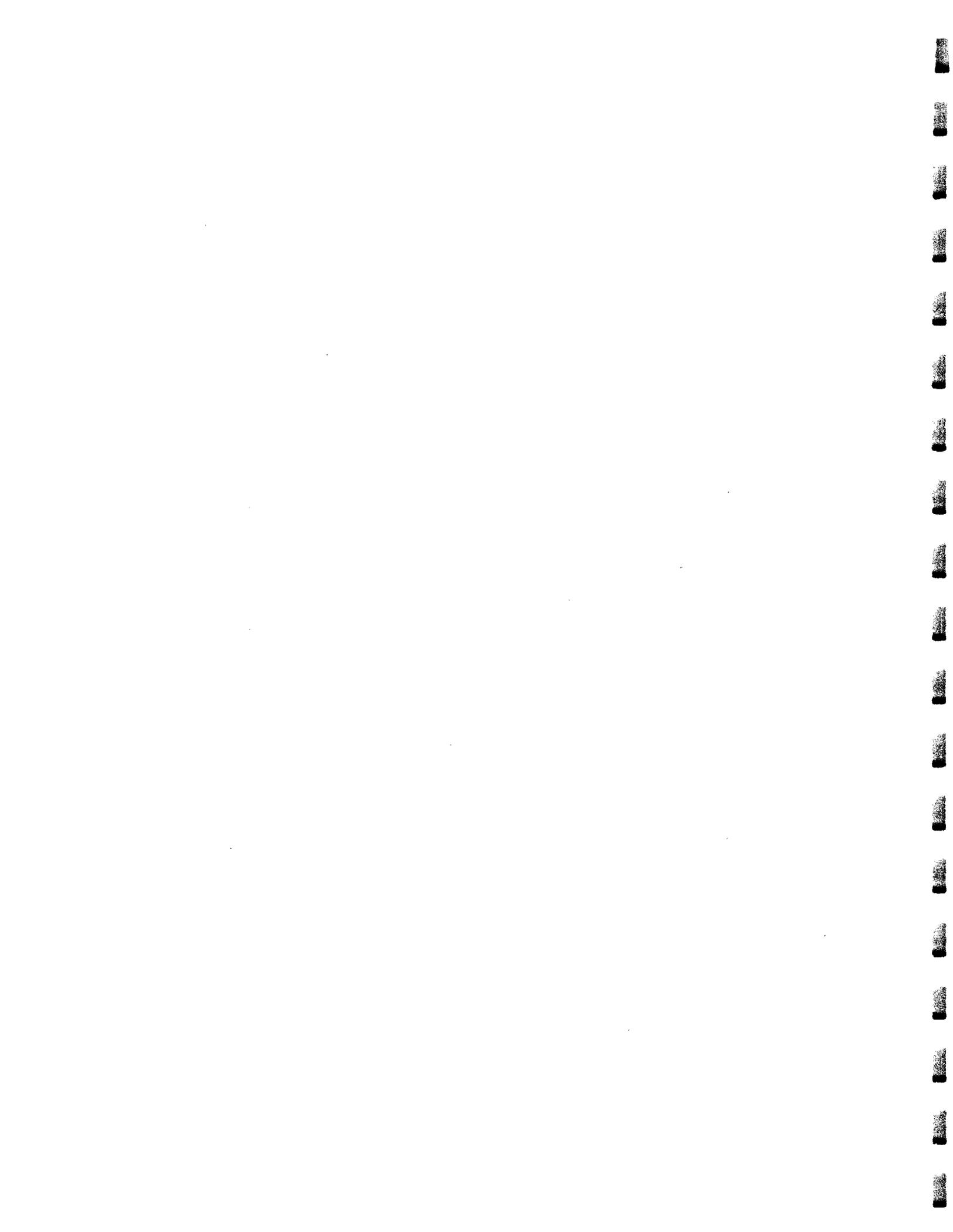
B. Commitments

Agreement for Police Protection – In September 2012, as approved by the Mississippi State Attorney General and as provided by Miss. Code Ann. (1972), §17-13-1 and §17-13-5. *et seq.*, the City entered into an interlocal cooperation agreement with Hancock County, Mississippi (the “County”), whereby the County will provide all police protection, animal control, investigative, services and other purposes, including 911 services to the City. The City paid \$468,254 to cover all direct salaries and fringe benefits for 6 deputies and 1 investigator during the fiscal year ended September 30, 2013. This agreement expires on December 31, 2013; however, as of the date of this report, the contract has been extended. This agreement is cancellable upon 60 days written notice by mutual agreement between parties. The City does have an on-going financial responsibility with this agreement.

C. Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City evaluated the activity of the City through April 1, 2014, (the date the financial statements were available to be issued), and determined that the following significant subsequent events have occurred requiring disclosure in the notes to the financial statement:

- The City Council will vote on April 1, 2014 as to whether to enter into a contract of approximately \$1,009,000 for the purchase of property to be used as city hall through a three-year lease-purchase agreement.
- In December 2013, the City renewed its interlocal agreement with Hancock County to provide police protection. This new agreement expires December 31, 2015.
- In March 2014, the City accepted and awarded a lease purchase financing agreement for the purchase of public works vehicles in the amount up to \$175,000 carrying an interest rate of 1.85% APR for a term of five years.





City of Diamondhead, Mississippi

Notes to the Required Supplementary Information For the Year Ended September 30, 2013

	Budgeted Amounts		Actual Budgetary Basis	Variances Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Property taxes	2,597,851	2,456,778	2,856,941	259,090	400,163
Intergovernmental	514,745	519,865	500,990	(13,755)	(18,875)
General sales taxes	500,000	421,102	464,672	(35,328)	43,570
Franchise fees	205,500	236,604	233,470	27,970	(3,134)
Licenses and permit fees	61,500	85,141	65,801	4,301	(19,340)
Fines and forfeitures	50,000	44,305	48,240	(1,760)	3,935
Investment earnings	-	2,023	2,905	2,905	882
Charges for services	-	-	1,192	1,192	1,192
Miscellaneous income	-	3,260	3,132	3,132	(128)
Total Revenues	3,929,596	3,769,078	4,177,343	247,747	408,265
Expenditures:					
General government:					
Personnel services	274,273	402,966	380,775	(106,502)	22,191
Supplies	17,350	31,294	30,723	(13,373)	571
Contractual	564,509	652,044	650,059	(85,550)	1,985
Capital outlay	128,340	198,459	150,167	(21,827)	48,292
Debt service	295,800	102,444	102,444	193,356	-
Total general government	1,280,272	1,387,207	1,314,168	(33,896)	73,039
Public safety:					
Personnel services	-	46,769	18,113	(18,113)	28,656
Supplies	113,400	163,400	89,177	24,223	74,223
Contractual	817,054	641,635	520,096	296,958	121,539
Capital outlay	56,500	143,824	143,824	(87,324)	-
Total public safety	986,954	995,628	771,210	215,744	224,418
Public Works					
Personnel services	607,556	366,946	336,116	271,440	30,830
Supplies	190,273	161,061	128,173	62,100	32,888
Contractual	299,288	271,208	197,534	101,754	73,674
Capital outlay	164,600	177,311	164,516	84	12,795
Total public works	1,261,717	976,526	826,339	435,378	150,187
Economic development					
Personnel services	-	25,739	24,597	(24,597)	1,142
Contractual	160,363	97,758	88,877	71,486	8,881
Capital outlay	3,030	-	-	3,030	-
Total economic development	163,393	123,497	113,474	49,919	10,023
Total Expenditures	3,692,336	3,482,858	3,025,191	667,145	457,667
Other Financing Sources (Uses):					
Proceeds from long-term debt	240,000	100,000	299,872	59,872	199,872
Total Other Financing Sources (Uses)	240,000	100,000	299,872	59,872	199,872
Net change in fund balances	477,260	386,220	1,452,024	974,764	1,065,804
Fund balances - beginning	-	-	-	-	-
Fund balances - ending	\$ 477,260	386,220	1,452,024	974,764	1,065,804

See Notes to Required Supplementary Information



City of Diamondhead, Mississippi

Notes to the Required Supplementary Information
For the Year Ended September 30, 2013

A. Budgetary Information.

State statutes authorize the State Auditor to regulate the municipal budget process. Expenditures must be defined to the minimum level prescribed by the State Auditor. The State Auditor has set this level at the purpose level. Municipalities are prohibited from spending in excess of the lowest level adopted in the budget except for capital outlay, election expense and emergency warrants.

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund:

Net Change in fund balance - Budget-Cash Basis		1,452,024
Revenues per Cash-basis Budget	4,177,343	
Change in receivable from other governments	12,028	12,028
Contributed capital donations	59,444,433	59,444,433
Revenues per Fund Financial Statements	<u>63,633,804</u>	
Expenditures per Cash-basis Budget	3,025,191	
Change in accounts payable	(193,107)	193,107
Additional accrued wages	58,759	(58,759)
Contributed capital assets as capital outlay	59,444,433	(59,444,433)
Expenditures per Fund Financial Statement	<u>62,335,276</u>	
Net Change in fund balance - Fund Financials		<u>1,598,400</u>

OTHER SUPPLEMENTARY INFORMATION



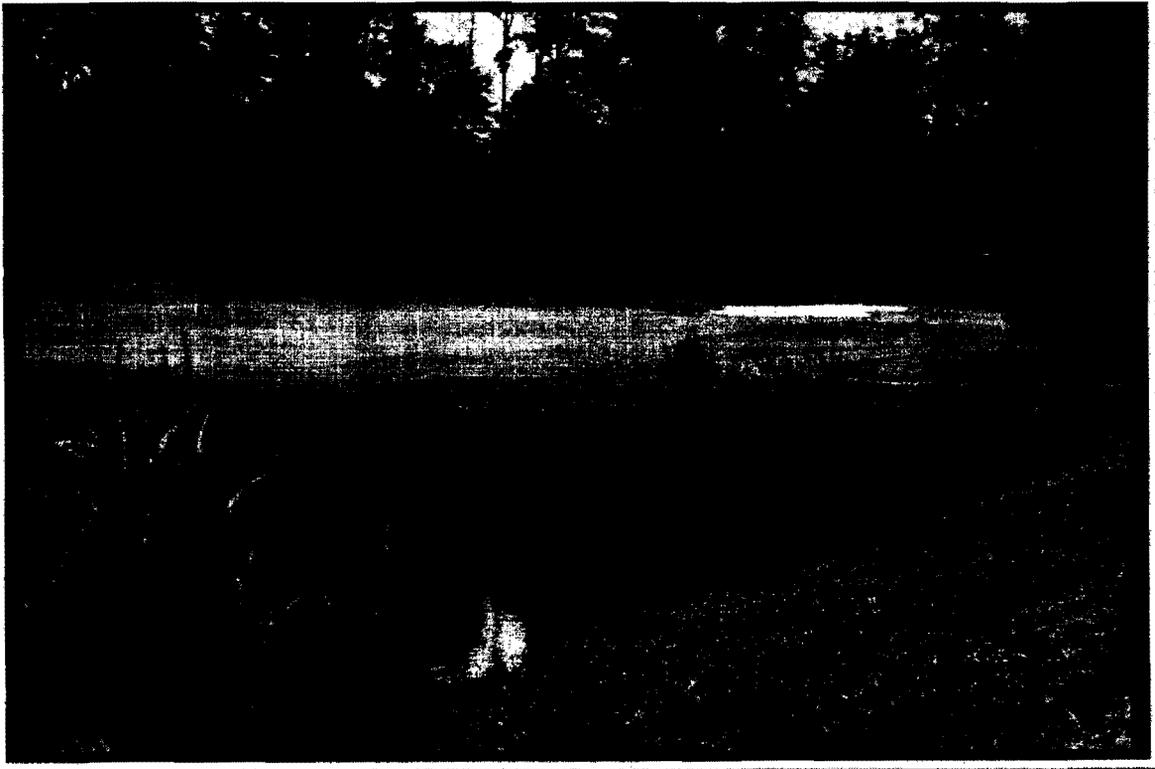


City of Diamondhead, Mississippi

Schedule of Surety Bonds For the Fiscal Year Ended September 30, 2013

<u>Position</u>	<u>Surety</u>	<u>Bond</u> <u>Amount</u>
Mayor	Traveler's	\$ 50,000
Council	Traveler's	50,000
Council	Traveler's	50,000
Council	Traveler's	50,000
Council	Traveler's	50,000
Council	Traveler's	50,000
City Manager	Traveler's	50,000
City Clerk	Traveler's	50,000
Court Clerk	Traveler's	50,000
City Accountant	Traveler's	50,000
Building Clerk	Traveler's	50,000
Receptionist	Traveler's	50,000
Accounts Payable Clerk	Traveler's	50,000
Purchasing Clerk	Traveler's	50,000
Building Official	Traveler's	50,000
Police Officer	Traveler's	25,000

COMPLIANCE SECTION



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WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1988)

Certified Public Accountants

HANCOCK BANK BUILDING

2510 · 14TH STREET

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April 1, 2014

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and City Council
City of Diamondhead, Mississippi

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Diamondhead, Mississippi, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Diamondhead, Mississippi's basic financial statements, and have issued our report thereon dated April 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Diamondhead, Mississippi's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Diamondhead, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Diamondhead, Mississippi's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Diamondhead, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wendell Wend Holtz # 1

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY
(SUCCESSORS TO A. L. EWING & COMPANY ESTABLISHED 1989)

Certified Public Accountants

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April 1, 2014

To the Honorable Mayor and City Council
City of Diamondhead, Mississippi

We have audited the basic financial statements of as of and for the initial period ended September 30, 2013 and have issued our report dated April 4, 2014. We have 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 audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the general purpose financial statements disclosed no material instances of noncompliance with state laws and regulations. The prior year findings have been corrected.

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

Wendy Ward Hatten & Guel

STATISTICAL SECTION



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City of Diamondhead

Net Position by Component Last Two Fiscal Years⁽¹⁾

	<u>2012</u>	<u>2013</u>
Governmental activities		
Net investments in capital assets	\$ 74,936	\$ 57,206,476
Restricted	-	49,193
Unrestricted	7,502	1,541,318
Total governmental activities net position	<u>\$ 82,438</u>	<u>\$ 58,796,987</u>

⁽¹⁾ City was incorporated January 30, 2012.



City of Diamondhead

Changes in Net Position Last Two Fiscal Periods⁽¹⁾

	2012 ⁽¹⁾	2013
Governmental activities:		
Expenses		
General government	\$ 335,801	\$ 1,155,041
Public safety	53,042	604,749
Public works	-	3,043,832
Economic development	-	113,188
Interest on long-term debt	-	2,445
Total expenses	<u>388,843</u>	<u>4,919,255</u>
Program Revenues		
Charges for services:		
General government	1,650	1,192
Public safety	50	48,240
Economic development	-	65,801
Operating grants and contributions	1,000	37,098
Capital grants and contributions	19,912	59,476,624
Total revenues	<u>22,612</u>	<u>59,628,955</u>
Net Revenue/(Expense)	<u>(366,231)</u>	<u>54,709,700</u>
General Revenues		
Taxes		
Property taxes	-	2,856,941
Sales taxes	318,013	454,352
Franchise taxes	130,541	255,824
Intergovernmental	-	431,701
Interest income	115	2,905
Other revenue	-	3,126
Total general revenues	<u>448,669</u>	<u>4,004,849</u>
Change in Net Position	<u>\$ 82,438</u>	<u>\$ 58,714,549</u>

⁽¹⁾ City was incorporated January 30, 2012. The initial reporting period was for eight months.



City of Diamondhead

Fund Balances – Governmental Funds Last Two Fiscal Years⁽¹⁾

	<u>2012</u>	<u>2013</u>
General fund		
Restricted	\$ -	\$ 49,193
Unassigned	<u>7,502</u>	<u>1,556,709</u>
Total governmental fund balance	<u>\$ 7,502</u>	<u>\$ 1,605,902</u>

⁽¹⁾ City was incorporated January 30, 2012.



City of Diamondhead

Changes in Fund Balances Last Two Fiscal Periods⁽¹⁾

	2012 ⁽¹⁾	2013
Revenues:		
Property taxes	\$ -	\$ 2,856,941
Intergovernmental		500,990
General sales taxes	318,013	454,352
Franchise fees	130,541	255,824
Licenses and permit fees	1,650	65,801
Fines and forfeitures	50	48,240
Investment earnings	115	2,905
Charges for services	-	1,192
Miscellaneous income	-	3,126
Contribution of operating and capital assets	20,912	59,444,433
Total Revenues	<u>471,281</u>	<u>63,633,804</u>
Expenditures:		
General government	335,801	1,151,205
Public safety	51,719	576,167
Public works	-	795,198
Economic development	-	112,483
Debt service:		
Principal	-	100,000
Interest and other charges	-	2,445
Capital Outlay	176,387	59,597,778
Total Expenditures	<u>563,907</u>	<u>62,335,276</u>
Excess of Revenues over Expenditures	(92,626)	1,298,528
Other Financing Sources:		
Proceeds from short-term loans	-	100,000
Proceeds from capital leases	100,128	199,872
Total Other Financing Sources	<u>100,128</u>	<u>299,872</u>
Net change in fund balances	<u>\$ 7,502</u>	<u>\$ 1,598,400</u>
 Debt service as a percentage of noncapital expenditures	 N/A	 3.82%

⁽¹⁾City was incorporated January 30, 2012. The initial reporting period was for eight months.



City of Diamondhead

Assessed Value of Taxable Property Current Tax Levy Year

Calendar Year Ended December 31	Real Property ⁽¹⁾	Personal Property ⁽²⁾	Utilities ⁽³⁾	Motor Vehicles ⁽³⁾	Less Tax Exempt Property	Total Taxable Assessed Value	Direct Tax Rate
2012	\$ 79,171,343	\$ 1,161,331	\$ 132,589	\$ 16,520,694	\$ (10,311,710)	\$ 86,674,247	34.25

Data Sources and Notes:

⁽¹⁾ Class I - Residential, owner occupied is assessed at 10% of true value

Class II - Commercial is assessed at 15% of true value

⁽²⁾ Class III - Personal Property, except motor vehicles is assessed at 15% of true value

⁽³⁾ Class IV and V - Public service property and motor vehicles is assessed at 30% of true value

Source: Hancock County Tax Assessor



City of Diamondhead

Direct and Overlapping Property Tax Rates Last Two Years⁽¹⁾

Fiscal Year	City of Diamondhead			Diamondhead Fire Protection District ⁽²⁾
	Operating Millage	Debt Millage	Total Millage	
2012	0.00	0.00	0.00	0.40
2013	34.25	0.00	34.25	0.40

Fiscal Year	Hancock County-Wide						Total Millage	Grand Total Millage
	General County	Road Constr. & Maint.	County Bond & Interest	County Schools	Junior Colleges	Other		
2012	24.82	3.26	0.85	40.53	2.00	10.78	82.24	82.64
2013	25.53	3.26	5.26	35.27	2.00	10.92	82.24	116.89

Notes:

⁽¹⁾ Rates are per \$1,000 of assessed value

Ad valorem on real property assessed in current fiscal year are applied to prior calendar year assessed values.

⁽²⁾ Assessed and collected by County

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City of Diamondhead

Principal Property Taxpayers Current Tax Levy Year⁽¹⁾

Taxpayer (DBA)	December 31, 2012		
	Taxable Assessed Value	Rank	Percentage of Total Assessed Value
Diamondhead Nursing Facility (Woodland Village)	\$ 567,527	1	0.65%
Rouse Land Company (Rouse's Grocery)	483,921	2	0.56%
Doctor's Properties, LLC (Gulfport Memorial)	415,334	3	0.48%
Diamondhead Comm Dev (True Value Hardware, etc.)	377,880	5	0.44%
Diamondhead Resorts	396,980	4	0.46%
Triple Diamonds (Goody's, Dollar Tree, etc.)	308,822	6	0.36%
CTV Development (Nautilus Plus)	190,374	7	0.22%
Universal Storage	164,438	8	0.19%
Diamondhead, Inc. (Econolodge)	160,835	9	0.19%
Diamondhead, LLC (Kangaroo)	159,304	10	0.18%
Total	3,225,415		3.72%
Other Taxpayers	83,448,832		96.28%
Total All Taxpayers	\$ 86,674,247		100.00%

Source: Office of the Hancock County Tax Collector

⁽¹⁾ City did not began collecting taxes until FY 2013; therefore there is no comparative information available.



City of Diamondhead

Property Tax Levies and Collections Current Year⁽¹⁾

Calendar Year Ended December 31 ⁽¹⁾	Total Tax Levy for Fiscal Year	Total Collections to Date	
		Amount	Percentage of levy
2012	\$ 2,968,593	\$ 2,856,941	96.24%

⁽¹⁾ Ad valorem on real property assessed in current fiscal year are applied to prior calendar year assessed values.

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City of Diamondhead

Estimated Taxable Sales by Category Last Two Years⁽¹⁾

	Year Ended June 30,	
	2012	2013
Automotive	\$ -	\$ 354,813
Food and Beverage	9,254,270	27,195,550
Lumber and Building Materials	337,245	882,104
Miscellaneous Retail	576,595	1,615,551
Miscellaneous Services	1,009,045	3,055,129
Contracting	-	144,444
Total	\$ 11,177,155	\$ 33,247,591

Data Sources and Notes:

Source: Mississippi State Tax Commission

Data available for State fiscal year end of June 30 only.

⁽¹⁾ City was incorporated in January 2012.



City of Diamondhead

Ratio of Outstanding Debt by Type Last Two Years⁽¹⁾

<u>Fiscal Year</u>	<u>Governmental Activities Capital Leases</u>	<u>Total Primary Government</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
2012	\$ 100,128	\$ 100,128	< 1%	12
2013	300,000	300,000	< 1%	35

Notes:

Details of the city's outstanding debt can be found in the notes to the financial statements.

Demographic and economic data can be found on pages 55-56 of this report.

⁽¹⁾ City was incorporated in January 2012.



City of Diamondhead

Schedule of Legal Debt Margin Last Two Years⁽¹⁾

	2012 ⁽¹⁾	2013
Debt limit	\$ -	\$ 13,769,765
Net debt applicable to limit	-	-
Net debt applicable to the limit as a percentage of debt limit	N/A	0.00%

Note: Debt limit is calculated at 15% of assessed value from the preceding calendar year

⁽¹⁾ City was incorporated in January 2012 and had no prior year assessed values for debt margin calculation.



City of Diamondhead

Demographic and Economic Statistics Last Two Years

<u>Fiscal Year</u>	<u>Population ⁽¹⁾</u>	<u>Personal Income (expressed in thousands)⁽²⁾</u>	<u>Per Capita Personal Income⁽³⁾</u>	<u>Unemployment Rate ⁽⁴⁾</u>	<u>Median Age⁽⁵⁾</u>
2012	8,507	\$ 263,606	\$ 30,987	8.5%	48.5
2013	8,593	268,935	31,297	7.9%	48.5

Data Sources and Notes:

- ⁽¹⁾ September 30 population estimates are derived from the U.S. Census Bureau. Estimated using 2010 census data adjusted by 1% annually
- ⁽²⁾ Calculated by multiplying per capita personal income by total population divided by 1,000.
- ⁽³⁾ U.S. Census Bureau 2010 census data adjusted by 1% annually
- ⁽⁴⁾ Mississippi Department of Employment Security, employment rate for Hancock County as of September 30.
- ⁽⁵⁾ U.S. Census Bureau 2010 census data.

Education information and school enrollment information not available.

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City of Diamondhead

Principal Employers Current Year⁽¹⁾

Employer	2013		
	Employees ⁽²⁾	Rank	Percentage of Total Employment
Woodland Village Nursing Home	160	1	20.5%
Diamondhead Country Club	126	2	16.1%
Rouse's Supermarket	63	3	8.1%
Diamondhead Water & Sewer District	31	4	4.0%
City of Diamondhead	30	5	1.8%
Park Ten Lanes	22	6	2.6%
The Red Zone Bar & Grill	21	7	1.9%
Waffle House	20	8	2.8%
Memorial Physicians Clinic	15	9	0.0%
Goody's	10	10	0.0%
Total	510		57.7%
Other Employers	272		42.3%
Total Employment	782		100.0%

⁽¹⁾ City was incorporated in January 2012 and has no prior year comparison data available

⁽²⁾ Total employment estimate information obtained from data collected from Privilege Licenses.



City of Diamondhead

Full-time Equivalent City Government Employees by Function Last Two Years⁽¹⁾

Function	<u>2012</u>	<u>2013</u>
General government		
City Management	1	1
Finance	1	3
Administrative	0	1
Building/Planning	0	1
Judicial	1	1
Public Safety		
Police ⁽²⁾	0	0
Highways & Streets		
Maintenance	<u>0</u>	<u>12</u>
TOTAL	<u><u>3</u></u>	<u><u>19</u></u>

⁽¹⁾ City was incorporated in January 2012.

⁽²⁾ Police protection was provided by the Hancock County Sheriff's Dept through an interlocal agreement.

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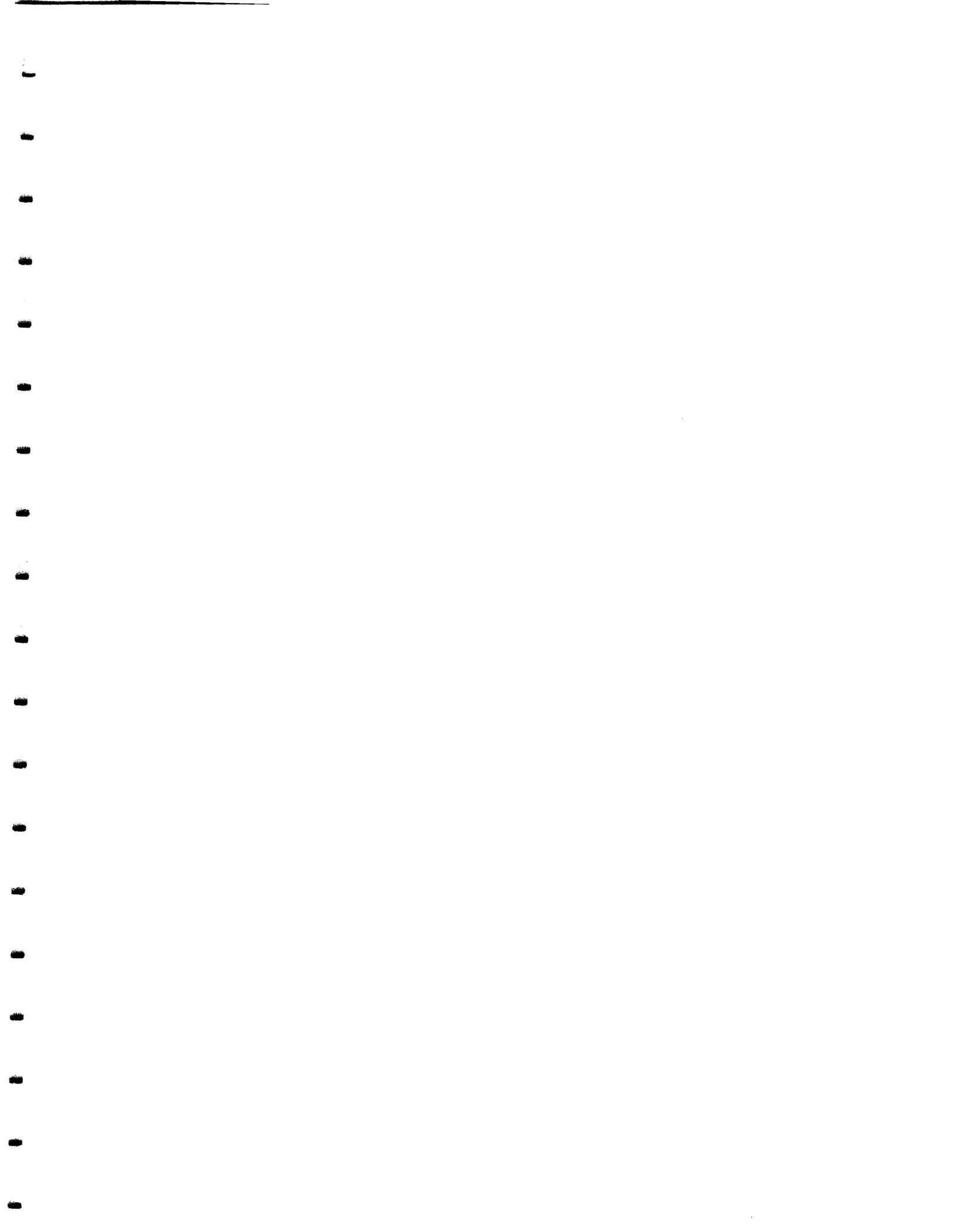
City of Diamondhead

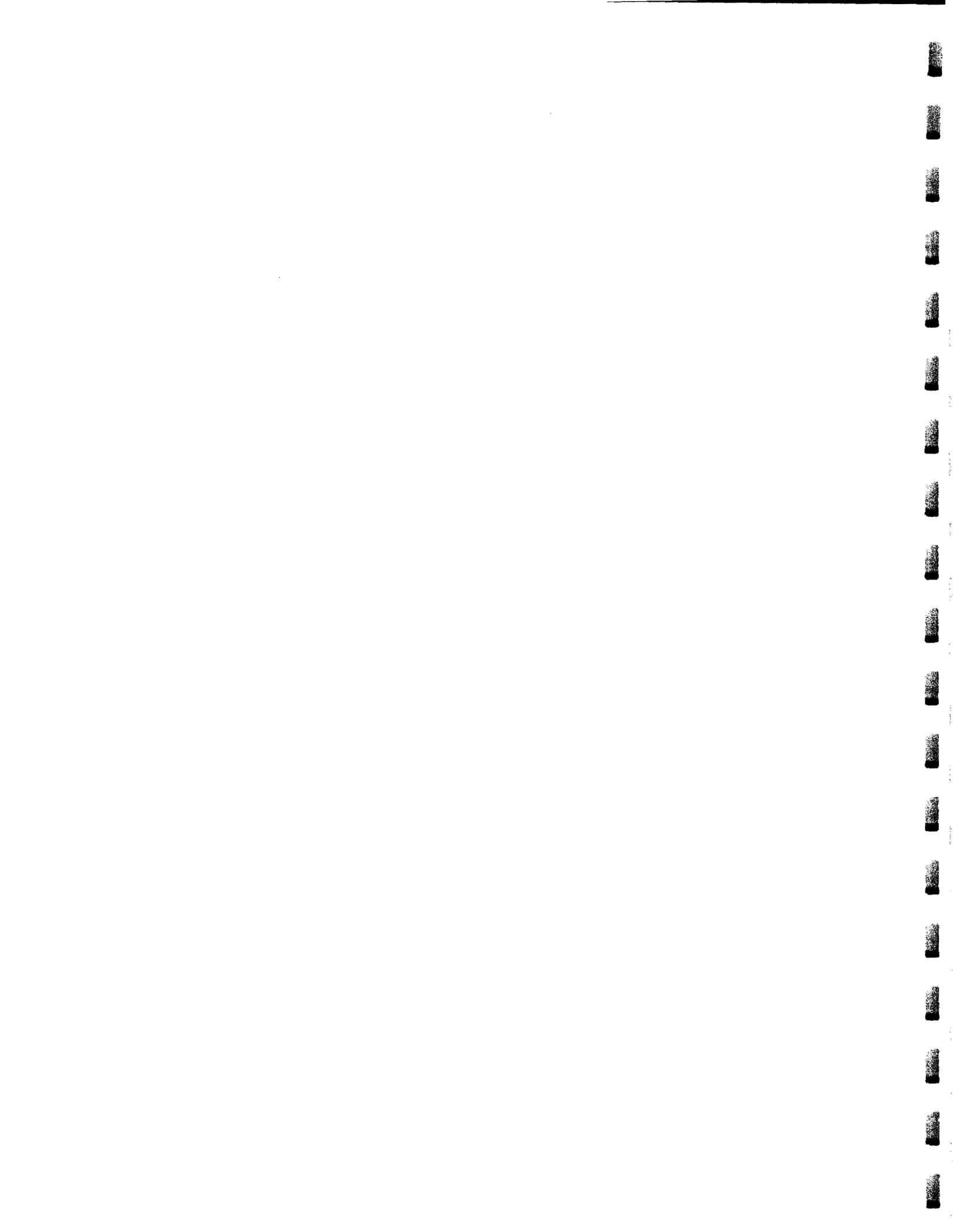
Capital Asset Statistics by Function Last Two Years⁽¹⁾

Function	<u>2012</u>	<u>2013</u>
Public Safety		
Police:		
Patrol units	7	9
Highways and streets		
Streets ⁽²⁾	0	74.49 miles
Streetlights	0	617
Culture and recreation		
Parks ⁽²⁾	0	1

(1) City was incorporated in January 2012.

(2) Streets and parks were acquired from the property owner's association in January 2013





WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1928)

Certified Public Accountants

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April 1, 2014

To the Honorable Mayor and
Members of the City Council
City of Diamondhead, Mississippi

We have audited the financial statements of the governmental activities and the aggregate remaining fund information of City of Diamondhead, Mississippi for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standard*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 18, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Diamondhead are described in Note I to the financial statements. As detailed in Note I(m) the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, 61, 62 and 63. The most significant provision affecting the financial statements was the adoption of GASB Statement No. 63, *Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources and Net Position* which changed the previous classification of net assets to net position, and consequently the Statement of Net Assets to the Statement of Net Position. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the governmental activities' financial statements was:

Management's estimate of the contributed capital of infrastructure (streets acquired from the property owner's association in January 2013) is based on fair value of street replacement costs per foot times the number of feet of street acquired. We evaluated the key factors and assumptions used to develop the valuation of contributed capital in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 1, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Recommendations

Although during our audit, we did not become aware significant deficiencies or material weaknesses, we would like to recommend the following that are opportunities for strengthening internal controls and operating efficiency. These recommendations do not affect our report dated April 1, 2014, on the financial statements of the City of Diamondhead.

Establishing a Capital Projects Fund

Governmental accounting allows for various fund types including the general fund, special revenue funds, capital projects funds and debt service funds. At present the City only utilizes the general fund. Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including acquisition or construction of capital facilities and other assets. We would recommend that during the FY 2014/2015 budget process, the City establish capital projects fund to segregate capital projects from general governmental activities.

Surety Bonds

§ 21-17-5 Mississippi Code of 1972 requires the surety bonds for governing authorities of every municipality to maintain surety bonds in an amount equal to the lesser of \$100,000 or 5% of the sum of all the municipal taxes shown by the assessment rolls and the levies to have been collected for the year immediately preceding the commencement of office. At present the council members bonds are set at \$50,000, which is sufficient for the current audited year, in that, property taxes were not assessed and collected until fiscal year 2013. However, as of 2014, council members bonds should be increased to \$100,000 to comply with State law.

This information is intended solely for the use of City Council and management of City of Diamondhead and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Wendell Wend Holtz & Kuf

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