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April 4, 2013

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

We have audited 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 (the "City") for the initial period ended September 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), 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 4, 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 are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the governmental unit during initial period 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. There were no significant estimates in current year financial statements.

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.

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.

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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 4, 2013.

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 for each initial period 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

Matters of Emphasis

During out audit, several concerns arose that we wish to communicate in this letter as a matter of emphasis. The following are not considered control deficiencies or issues of noncompliance; and these matters have been discussed with management.

a. Infrastructure and Fixed Assets

In 2013, the City acquired streets, right of ways and drainage easements of the City from the Property Owner's Association.

Governmental accounting and state regulations have very specific requirements as to the valuation and tracking of fixed assets including infrastructure. The City has the unique opportunity to start "fresh" and record fixed assets as they are contributed and acquired.

We discussed this issue with Management and have determined that the City Accountant has a process in place to track and tag fixed assets; however, valuation of the acquired infrastructure may be a time consuming and complex process. We will gladly provide whatever financial assistance and advice the City needs to ensure that the valuing of fixed assets remains in compliance with governmental and state requirements.

The State requires that an inventory of fixed assets be done annually. We have found that many cities benefit from performing an annual inventory of fixed assets during the budget process. This allows department heads to assess their next fiscal year capital outlay needs.

We recommend that the City take steps to ensure that proper inventory procedures are in place and financial transactions for fixed assets donated and purchased are correctly reflected in the City's financial statements prior to the close of fiscal year ended September 30, 2013.

b. Credit Cards

Miss. Code Ann. (1972) § 31-7-9(1)(b) gives the Mississippi Department of Finance and Administration authority over the use of credit cards by state agencies including municipalities. The DFA recommends the use of State of Mississippi Procurement Card Program in lieu of merchant-specific credit cards as detailed in the *Mississippi Procurement Manual (05/10/12)* published by the Mississippi Office of Purchasing, Travel and Fleet Management.

The *Procurement Manual* also states: Governing authorities desiring to obtain a merchant specific credit card shall submit to their governing board for approval, written justification for the need of a merchant specific credit card. Approval of such action shall be placed on the minutes of the board of the governing authority.

During our audit, we noted that the City has several merchant specific credit cards including a VISA with Hancock Bank with a credit limit of $10,000. It should be noted that strict adherence to state guidelines concerning travel and spending limitations should be observed and maintained. More specifically, at no time, should a balance on a credit card be allowed to be carried over until the next month (with the exception of disputed claims).

We have provided the *Mississippi Procurement Manual (05/10/12)* to the City Accountant and City Manager for their reference. We would recommend that the City investigate other purchasing methods (such as the procurement card program offered by the State) in lieu of merchant-specific credit cards.

c. Segregation of Duties

Segregation of duties is one of the strongest tools a City can use to safeguard assets. The proper application of segregation of duties is sometimes difficult with the limited size of a City.

During our audit, we noted that the City employed many volunteers and contract personnel. We understand that being a newly established entity, the City's resources are limited. However, upon our assessment of the City's internal controls, we would like to emphasize due diligence when safeguarding confidential information (i.e. employee health insurance, credit information, and personnel records) in compliance with federal regulations.

Also, in our assessment of internal controls as it relates to the segregation of duties, we did note that heavy reliance is placed upon the City Accountant for capturing and recording the City's financial transactions. With the City's new integrated software package, this reliance upon the City Accountant should be reassessed and duties should be distributed between the accounting, purchasing and disbursement functions of the City.

We would recommend that the City investigate hiring a full-time Purchasing Agent familiar with the complexities of State and Federal purchasing laws. As the City begins to receive federal grants, this position will be an important part of the internal control structure and provide segregation of conflicting duties now performed by the City Accountant. An experienced purchasing agent also will have the effect of lowering City legal fees for consulting.

d. Ad valorem collection

It was noted in our audit, that the City has started to collect ad valorem taxes from its citizens. We caution the City personnel to familiarize themselves with the strict compliance and reporting requirements associated with tax collection.

As a matter of emphasis, should the City receive fire insurance rebate monies from the State and pass these monies to the Diamondhead Fire District, City personnel should be aware of the restrictions and reporting requirements associated with these monies.

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e. Continuing Professional Education

Governmental accounting and state compliance can be challenging even to the most experienced accountant. We recommend continuing education to stay current with accounting and state legal compliance issues.

f. Unemployment Compensation Fund

During our audit, we noted that the City is paying into the Mississippi Department of Employment Security system at a rate of 1% for the first $14,000 of covered wages for each employee. Miss. Code Ann. (1972) § 71-5-359(5) allows State political subdivisions to elect to make contributions to an unemployment compensation "revolving" fund in an amount equal to 2% of the first $6,000 of covered wages; however, this election holds the City liable for the regular benefits and extended benefits paid.

As the City's staff grows, we recommend that Management access the option that will most benefit the City.

g. State Regulations and Compliance

The Mississippi Office of the State Auditor requires that the Municipal Compliance Questionnaire be completed prior to fiscal year end and be spread in the minutes of the meetings of the Council. We have issued a state and local compliance finding due to this report's omission during the current fiscal period.

We would like to emphasize in this letter that this report is a helpful aid to City personnel in ensuring that the City remains in compliance with the various state laws and regulations. We recommend that City personnel familiarize themselves with this report and ensure that all items listed are in compliance.

Supplemental Information

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, 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.

This information is intended solely for the use of Mayor, 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,

Walker Ward Tatter & Co

CITY OF DIAMONDHEAD, MISSISSIPPI

Audited Financial Statements and Special Reports

For the Year Ended September 30, 2012

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CITY OF DIAMONDHEAD, MISSISSIPPI

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INTRODUCTORY SECTION

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City of Diamondhead

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April 4, 2013

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CITY COUNCIL
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Hank Holcomb
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Ernie Knobloch
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Dalton Roberson
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Mayor and City Council
City of Diamondhead, Mississippi

We are pleased to submit the Comprehensive Annual Financial Report of the City of Diamondhead (the "City") for the initial period ended September 30, 2012. The Administration of the City is responsible for the information presented in this report. We believe the accompanying information is accurate and complete and fairly presents the financial position of the municipal government of the City as of September 30, 2012, and results of operations for the fiscal year then ended.

Control Environment

The City's management is responsible for maintaining a system of internal controls sufficient to provide reasonable assurance that City assets are safeguarded from loss and that financial transactions are recorded timely and accurately. Reasonable assurance means that internal controls are selected or designed to reduce the risk of asset loss or inaccurate bookkeeping to an acceptable level, considering the constraint that the cost of control should not exceed the expected benefit. Management is responsible for communicating the purpose and importance of internal controls to employees and for providing the resources necessary to establish and maintain the control system.

Budgetary Controls

Prior to the beginning of each fiscal year, each department director prepares a projection of expenditures for his department. The City's City Clerk develops a projection of revenues for all funds and a projection of the expenditures not included in the departmental budgets. The revenue projections and proposed expenditures are presented to the City Manager. After reviewing the draft budget proposal, the City Manager meets with department directors to discuss their budget requests. Each director must justify his department's budget request by explaining the cost of the programs they propose for the coming year. When the City Manager is satisfied that the proposed budget conforms to the objectives and goals he has set for the coming year, the entire budget proposal is presented to the Mayor and City Council (the "Mayor/Council"). During the budget workshop, the Mayor/Council will review, discuss, and question the proposed budget and make modifications to it. The Mayor/Council will invite public comment on the taxing and spending plan at a special public hearing.

After determining that the revenue projections in the budget are sound and that the proposed spending is necessary to provide the level of services and to accomplish the program goals and capital improvements proposed in the budget, the Mayor/Council will adopt the budget. After adopting the budget for the coming year the Mayor/Council will set the property tax rate at a level that will generate the property revenue necessary to raise the budgeted ad valorem tax revenue.

Management's Discussion and Analysis

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Independent Audit

In accordance with Miss. Code Ann. (1972) § 21-35-31and guidelines prescribed by the Mississippi Office of the State Auditor, the financial statements presented herein have been audited by Wright, Ward, Hatten & Guel, PLLC an independent firm of Certified Public Accountants. The objective of the auditor's work is to provide the auditor with a basis upon which to express an opinion on the fairness of the City's financial statements. The auditor's opinion is included in the Financial Section of this report. The auditor's work involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation.

State Department of Audit regulations require the independent auditor to disclose any instance of non-compliance with certain state laws, that may come to their attention during the audit of the City's financial statements. The auditor must test for non-compliance with federal requirements applicable to each major federal program under with the City receives federal financial assistance.

Profile of the City of Diamondhead

The City, incorporated in 2012, is located in Hancock County. The city recently purchased and moved into the new city hall located at 5000 Diamondhead Circle, Diamondhead, MS 39525.

The City is operated under the council-manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and five other members. The Mayor/Council appoints the government's City Manager, who in turn appoints the heads of the various departments.

The present Mayor and Council members were named in the Incorporation Petition where over 66% of the qualified electors in the community signed the petition for incorporation. By law, the Mayor and Council will serve as the City's representatives until such time that the citizens select representation through an election process. Upon election results in June 2013, the mayor and the five council members serve four-year terms.

The City presently provides the following services: police protection, the construction and maintenance of streets and other infrastructure, planning and zoning, and recreational and cultural activities.

Police protection is provided through an interlocal agreement with Hancock County (see notes to the financial statements); however, as of March 2013, the City has hired a police chief and staff to take over the operations of the Police department.

The City has also hired a financial staff to take over the accounting functions of the City that had previously been outsourced to an accounting firm. In addition, as of September 30, 2012, the City had established a court department, hiring a part-time Municipal Judge and City Prosecutor.

The City also receives large support from volunteers. The City receptionists, the planning and zoning commissioners, the beautification committee and our public information coordinator are all volunteers.

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In January 2013, the City acquired the streets, right-of-ways and drainage easements, previously held by the Property Owner's Association (POA), and as a result, the City hired a Public Works Director and hired 13 employees from the POA Public Works Department. The City also acquired various public works fixed assets as contributions from the POA to assist the City in maintaining this infrastructure.

Economic Condition and Outlook

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 of local governments as a viable entity for economic development and City personnel are actively participating in various organizations and committees to promote business and are keeping 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 Incorporation Committee requested Mississippi State University to conduct a first impression study of the City of Diamondhead. As a result of this study, we recognized that we needed to improve our "front door" (the area surrounding the I-10 Interchange). We have addressed these issues with a various zoning ordinances to encourage and promote business in that area of Diamondhead.

We are presently exploring opportunities to expand public transportation in the City that will compliment our private providers.

Current business opportunities are as follows:

- a manufacturer of electronic test equipment for drone aircraft is working to possibly bring a workforce of about 100 to the City
- a new retail business will start construction in March 2013 and there is a strong likelihood that additional businesses will be opened in the City's shopping center in the near future

The Mississippi Department of Employment Security does not publish an unemployment rate for the City. Since we are located in Hancock County, we feel that the County's unemployment rate is indicative of unemployment in our City. That rate rose from 6.9% in September 2011 to 8.6% in September 2012.

Governmental Fund Revenues

Government funds are used to account for most City functions and operations including the various City departments, grants, capital projects, and the City's general obligation debt payments. Figure 1 illustrates the relative amounts of various general governmental revenues for the fiscal year 2012. The City's two largest sources of revenues for general government functions are sales tax and ad valorem tax. General sales tax revenue reported in the General Fund was $318,013. Since the City is newly established, ad valorem taxes were not collected in 2012; however, property was assessed with a value of $80,332,674, which includes both real and personal property.

Sales Tax – State law requires sellers of goods and services to collect and remit to the state sales taxes of various rates specified in its statutes. A tax rate of 7% applies to retail sales of tangible personal property. Of the taxes collected by the state each month, 18.5% of the sales tax revenue from activities within a municipal corporation is remitted to the municipal government.

Property Taxes – In Mississippi, property taxes are levied by municipalities and counties on the assessed value of land and buildings, mobile homes, automobiles, business inventory and equipment. Assessed value is a prescribed percentage of true (appraised) value of each class of property.

Classes of property and assessment ratios are defined in Section 112 of the Mississippi Constitution of 1890.

Class of Property	Ratio
Class I Single-family, owner-occupied, residential real	10%
Class II All other real property, except Class I or Class IV	15%
Class III Personal property, except motor vehicles and Class IV	15%
Class IV Public Utility property	30%
Class V Motor Vehicles	30%

Ad valorem taxes are collected in arrears. The taxes for a calendar tax year are due by February 1 of the subsequent calendar year. Prior to the beginning of a new fiscal year, the Mayor/Council sets the tax rate (levy) that will generate the tax revenue needed for the upcoming fiscal year. In each fiscal year, the City collects the ad valorem taxes for the prior calendar tax year. The governing authorities of Hancock County both assess and collect the ad valorem taxes for the City. The County then remits the amount collected for the City monthly.

Governmental Fund Expenditures

As of September 30, 2012, the City has yet to establish various departments and therefore, expenditures for the current initial period ended September 30, 2012, is limited to general government and public safety expenditures.

Debt Management

A municipality may finance its activities by incurring various forms of debt, from lease-purchase arrangements to long-term bonds. General obligation debt is bonds or notes secured by the governmental entity's pledge to levy tax adequate to repay the debt. Limited obligation bonds are secured by the pledge of a defined portion of the taxing power of the municipality. Revenue bonds are secured by a pledge of specific revenue sources other than ad valorem taxes such as revenue from a utility system.

Cash Management

Mississippi laws address the investment of surplus money by municipalities and the investment of the proceeds of bonds separately. The investment of surplus money is limited to bonds or other direct obligations of the United States of America or the State of Mississippi or any county or municipality of this state or any school district or obligations issued or guaranteed in full as to principal and interest by the United States of America which are subject to a repurchase agreement deposit with a maturity of six months or less. Treasury Bills are purchased by a municipal depository under a Security Safekeeping Agreement. The City's checking account balances are invested automatically, overnight, under sweep agreements with the City's depositories.

Major Initiatives

The City began operating its own police department, public works department, and finance department during FY2013. During FY2013, the City expended just over $1,009,000 to purchase and renovate City Hall located in the old Baptist Church at 5000 Diamondhead Circle.

Respectfully submitted,

Richard Rose, City Manager

Sue W. Foster, City Clerk

City of Diamondhead, Mississippi
City Officials

Mayor Chuck Ingraham
Council Chairman

Councilman
Ernie Knobloch

Councilwoman
Dianne Ackerman

Councilman
Hank Holcomb

Councilman
Ron Rech

Councilman
Dalton Roberson

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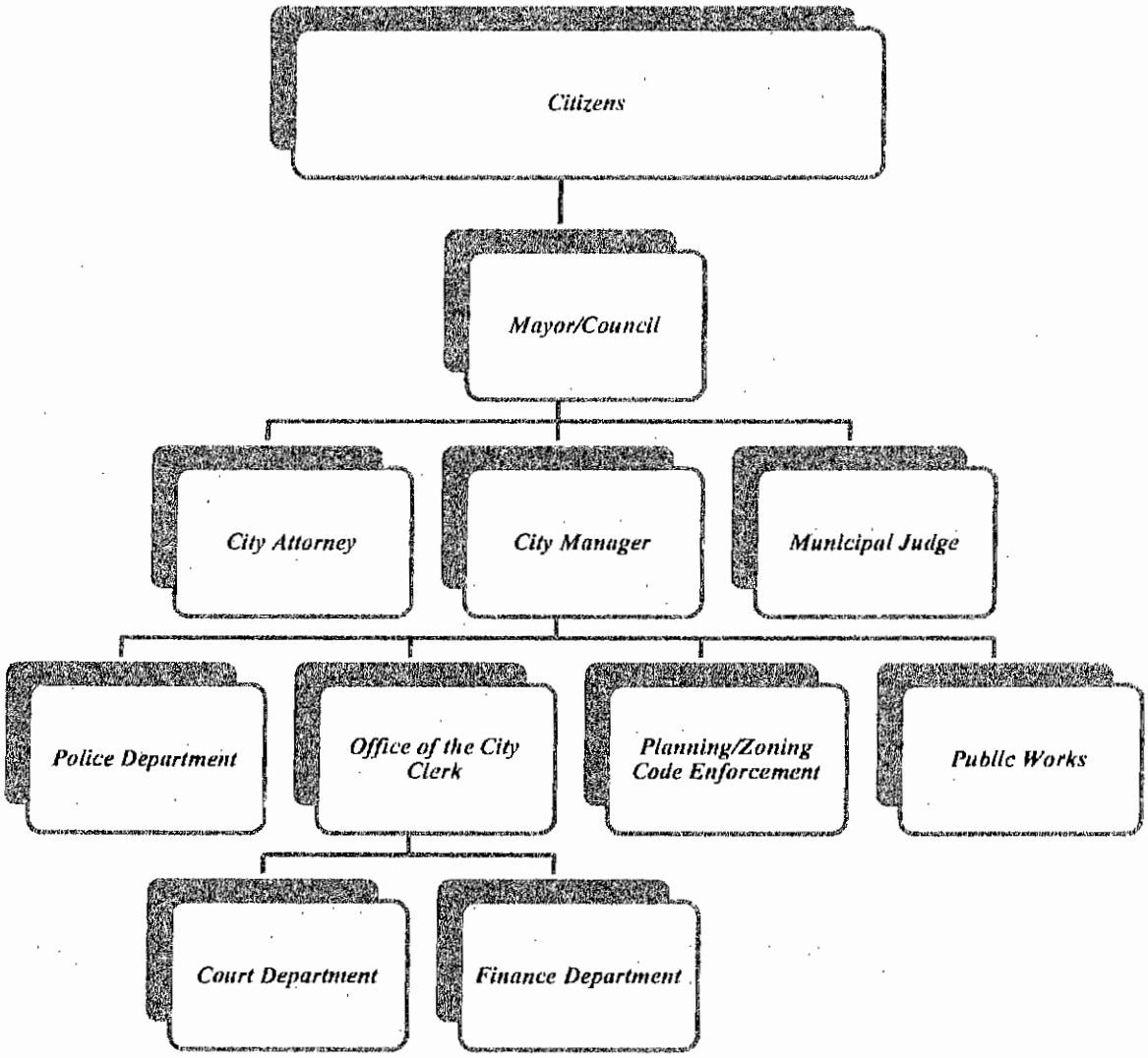
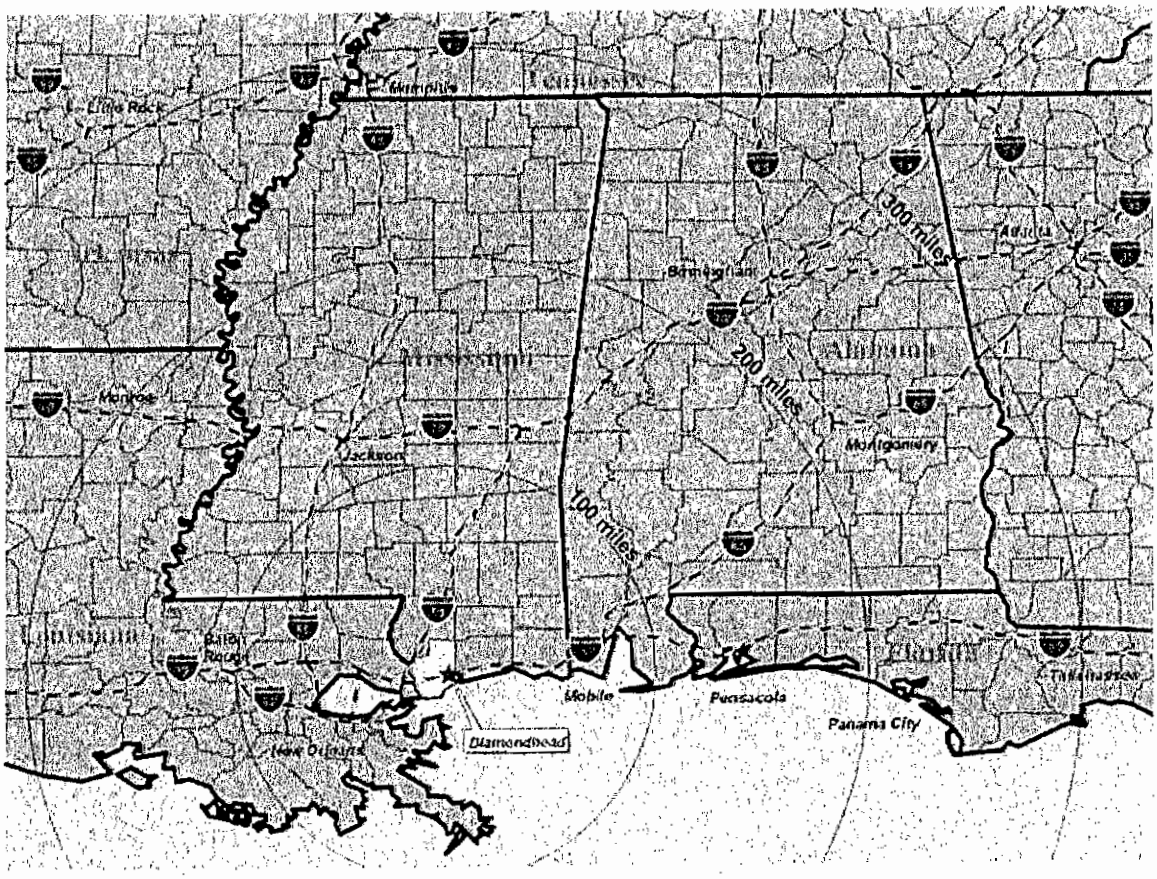
City of Diamondhead, Mississippi

Organizational Chart

April 2013



City of Diamondhead, Mississippi
Regional Location



FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

April 4, 2013

Honorable Mayor and
City Council of
City of Diamondhead, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Diamondhead, Mississippi, as of September 30, 2012 and for the period from inception of January 30, 2012 to initial period ended September 30, 2012, which collectively comprise the city's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the city's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Diamondhead, Mississippi, as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the initial period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2013, 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 results 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 12 through 17 and 40 through 42 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Diamondhead, Mississippi's financial statements as a whole. The introductory section and the supplementary information, Schedule of Surety Bonds, are presented for purposes of additional analysis and is not a required part of the financial statements. This information has 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 it.

Wright Ward Butler & Lamp

MANAGEMENT'S DISCUSSION AND ANALYSIS

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City of Diamondhead, Mississippi
Management's Discussion and Analysis
For the Initial Period Ended September 30, 2012
Unaudited

This Discussion and Analysis of the City of Diamondhead (the 'City') financial performance provides an overall review of the City's financial activities for the year ended September 30, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

- Total net assets increased $82,438 as a result primarily due to general sales tax revenues and franchise fees in excess of expenditures.
- General revenues amounted to of $448,669 or 95% of total revenues. Program revenues amounted to $22,612 or 5% of total revenues.
- Capital assets were purchased in the amount of $176,387 in 2012 primarily for vehicles and outfitting of vehicles for police protection under a capital lease. Depreciation expense recorded for the initial period ended September 30, 2012, was $1,323.
- As a result of the assets purchased under capital leases, $100,128 was owed to Hancock Bank as of September 30, 2012. An additional $74,936 was drawn down in the month following year end to pay the accrued liabilities associated with fixed asset purchases at year end.

Fund Highlights

- *General Fund* – This fund is used for the general operations of the City. The General Fund had $471,281 in revenues and $563,907 in expenditures for 2012. Proceeds from capital lease obligations in the amount of $100,128 was received to help offset the cost of capital outlay. The General Fund's fund balance increased by $7,502.

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 Net Assets 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. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Reporting the City of Diamondhead as a Whole

Statement of Net Assets 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 2012?" The Statement of Net Assets 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. These bases 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 assets and the changes in those assets. This change in assets 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 Net Assets 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 and police. 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 Net Assets 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 established other funds as appropriate for each individual use.

The City of Diamondhead as a Whole

Recall that the Statement of Net Assets and Statement of Activities look at the City as a whole. Table 1 and Table 2 provide a summary of the City's net assets and activities for 2012.

TABLE 1
City of Diamondhead, Mississippi
Condensed Statement of Net Assets
September 30, 2012

	Governmental
Assets	
Current assets	$ 226,161
Capital assets	175,064
Total Assets	401,225
Liabilities	
Current liabilities	218,659
Long-term liabilities	100,128
Total Liabilities	318,787
Net Assets	
Investment in capital assets, net of related debt	74,936
Unrestricted	7,502
Total Net Assets	$ 82,438

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

	Activities
Revenues:	
Program revenues:	
Charges for services	$ 1,700
Operating grants and contributions	1,000
Capital grants and contributions	19,912
Total program revenues	22,612
General revenues:	
General sales taxes	318,013
Franchise fees	130,541
Other	115
Total general revenues	448,669
Total revenues	471,281
Expenses:	
General government	335,801
Public safety	53,042
Total expenses	388,843
Increase (Decrease) in net assets	82,438
Net assets - beginning	-
Net assets - ending	$ 82,438

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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 standard 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 2012, the City amended its general fund budget. All recommendations for a budget change come from the City Clerk to the Mayor/Council for approval. State law does not allow budget changes that modify functional levels of budget amounts within a department without board 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.

Current Financial Related Activities and Economic Climate

Challenges facing the City at this time are large; however, the Mayor/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 Mayor/Council in March 2012.

As a cost saving measure to the City, the Mayor/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 city's contribution is 14.26%. This will jump to 15.75% in July of this year. It is feared that the employer contributions could grow even higher in the future. The Mayor/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 present Mayor and Council members were named in the Incorporation Petition where over 66% of the qualified electors in the community signed the petition for incorporation. By law, the Mayor and Council will serve as the City's representatives until such time that the citizens select representation through an election process. Upon election results in June 2013, the mayor and the five council members serve four-year terms. The City is divided into four wards and on June 4, 2013, the citizens of Diamondhead will elect a Mayor (Chairman of the Council) and five council members (one representative for each ward and 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.

Contact the City's Financial Management

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

Sue W. Foster, City Clerk
City of Diamondhead, Mississippi
5000 Diamondhead Circle
Diamondhead, MS 39525
(228) 222-4626

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FINANCIAL STATEMENTS

CITY OF DIAMONDHEAD, MISSISSIPPI
Statement of Net Assets
September 30, 2012

		Governmental
Assets		
Current assets		
Cash	$	87,186
Receivable from other governmental agencies		138,975
Total Current Assets		226,161
Capital assets, net of accumulated depreciation:		
Mobile equipment under capital leases		175,064
Total Capital Assets		175,064
Total Assets		401,225
Liabilities		
Accounts payable and accrued expenses		218,585
Payable to other government agencies		74
Long-term liabilities		
Due in more than one year:		
Capital leases		100,128
Total Liabilities		318,787
Net Assets		
Investment in capital assets, net of related debt		74,936
Unrestricted		7,502
Total Net Assets		82,438
Total Liabilities and Net Assets	$	401,225

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

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CITY OF DIAMONDHEAD, MISSISSIPPI

Statement of Activities

For the Initial Period Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Governmental Activities
Governmental Activities:					$
General government	$ (335,801)	1,650	1,000	2,881	(330,270)
Public safety	(53,042)	50	-	17,031	(35,961)
Total governmental activities	(388,843)	1,700	1,000	19,912	(366,231)
General Revenues:					
Taxes:					
General sales taxes					318,013
Franchise fees					130,541
Unrestricted investment earnings					115
Total general revenues, special items and transfers					448,669
Changes in net assets					82,438
Net assets - beginning					-
Net assets - ending					$ 82,438

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

CITY OF DIAMONDHEAD, MISSISSIPPI
Balance Sheet - Governmental Funds
September 30, 2012

		General Fund
ASSETS		
Cash	$	87,186
Receivable from other governmental agencies		138,975
Total Assets	$	226,161
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued expenses	$	218,585
Due to other fund		74
Total Liabilities		218,659
Fund Balances:		
Unassigned		7,502
Total Fund Balances		7,502
Total Liabilities and Fund Balances	$	226,161

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

CITY OF DIAMONDHEAD, MISSISSIPPI
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Assets
September 30, 2012

		Amount
Total Fund Balance - Governmental Funds	$	7,502
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this funds financial statement, but are reported in the governmental activities of the Statement of Net Assets.		175,064
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statements, but are included in the gnvernmental activities of the Statement of Net Assets.		(100,128)
Net Assets of Governmental Activities	$	82,438

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CITY OF DIAMONDHEAD, MISSISSIPPI
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Initial Period Ended September 30, 2012

		General Fund
Revenues:		
General sales taxes	$	318,013
Fines and forfeitures		50
Franchise fees		130,541
Licenses and permit fees		1,650
Investment earnings		115
Contributed capital		20,912
Total Revenues		471,281
Expenditures:		
General government		335,801
Public safety		228,106
Total Expenditures		563,907
Excess (Deficiency) of Revenues Over Expenditures		(92,626)
Other Financing Sources (Uses):		
Proceeds from capital leases		100,128
Total Other Financing Sources (Uses)		100,128
Net change in fund balances		7,502
Fund balances - beginning		-
Fund balances - ending	$	7,502

The notes to the 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 Initial Period Ended September 30, 2012

		Amount
Net Change in Fund Balances - Governmental Funds	$	7,502
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to $176,387 and the depreciation expense amounted to $1,323.		175,064
Proceeds from capital leases that are reported in the governmental fund statements, but not in the Statement of Activities		(100,128)
Change in net assets of governmental activities	$	82,438

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

CITY OF DIAMONDHEAD, MISSISSIPPI
Combining Statement of Assets and Liabilities
Fiduciary Funds
September 30, 2012

		Payroll Clearing Account
Assets	$	
Cash		393
Due from other government agencies		74
Total Assets		467
Liabilities		
Accrued liabilities		467
Total Liabilities		467
Net Assets		
Held in trust for benefits and other purposes	$	-

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - 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. This is the initial reporting period for the City in which the standing board has been appointed. Elections will be held in June 2013 for Mayor and Council members to serve a four year term.

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.

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.

Note 1 - 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 assets 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 Assets and Statement of Activities display information about the City as a whole. The statements include all non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues.

The Statement of Net Assets 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:

Fund financial statements of the City 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. Funds are organized into governmental, proprietary and fiduciary. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

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.

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Note 1 - Summary of Significant Accounting Policies (continued)

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

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 types:

Agency Funds - These funds account for various taxes, 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. Interfund Transactions and Balances

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Note 1 - Summary of Significant Accounting Policies (continued)

G. 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.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the City's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

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. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year.

The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
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.

H. Long-term Liabilities

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

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Note 1 - Summary of Significant Accounting Policies (continued)

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 Assets.

1. Equity Classifications

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - 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.

Restricted net assets - 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. The City did not have any restricted net assets as of September 30, 2012.

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

Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Government fund balance is classified as nonspendable, restricted, committed, or unassigned. The following are descriptions of fund classifications used by the City:

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund. The City did not have nonspendable fund balances as of September 30, 2012.

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. The City did not have restricted fund balances as of September 30, 2012.

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the Board of Alderman, the City's highest level of decision-making authority. This formal action is an order of the Board of Alderman as approved in the board minutes. The City did not have committed fund balances as of September 30, 2012.

Note 1 - Summary of Significant Accounting Policies (continued)

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 Board of Alderman. The City did not have assigned fund balances as of September 30, 2012.

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 positive 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 an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the City's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the City's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

J. Property Tax Revenues

Numerous statutes exist under which the Board of Alderman may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the City. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Alderman, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

In the City's initial period ending September 30, 2012, No property taxes were collected.

K. 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.

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Note 1 - Summary of Significant Accounting Policies (continued)

L. Compensated Absences.

The City has adopted a policy of compensation for accumulated unpaid employee personal 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.

The City's vacation policy provides for two weeks vacation after two years of employment. An employee may accumulate unused vacation leave hours without limitation, however, cash payments upon employee termination or retirement are limited to a maximum of two weeks pay. 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. Unused vacation and sick leave balances may be credited to the Public Employee's Retirement System (PERS) as time worked.

As of the initial period ended September 30, 2012, no liability for compensated absences exists due to employee eligibility for vacation pay does not begin until after one year of service.

M. Encumbrances

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

N. Deferred Revenue.

Receipts from revenues and grants for which the earning process is not complete are classified as deferred revenue, a liability, on the statement of net assets.

O. 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.

Note 2 – Stewardship, Compliance and Accountability

A. Budgetary Data

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 Board of Alderman 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.

Note 3 – Cash

A summary of cash at September 30, 2012 is as follows:

	Unrestricted	Cash on Hand	Total
Governmental funds			
General Fund	$ 86,986	200	87,186
Fiduciary Funds			
Payroll Clearing Fund	393	-	393
Total cash	$ 87,379	200	87,579

The carrying amount of the city's total deposits with financial institutions at September 30, 2012, was $87,379, and the bank balance was $96,821.

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.

Note 4 – Interfund Transactions and Balances

Government-wide Financial Statements

A. Intra-entity Balances

At September 30, 2012 the City had the following intra entity balances:

Due from other Government Agencies	Due to other Government Agencies	Amount
Fiduciary Agency Funds	Governmental Activites	74
		$ 74

Fund Financial Statements

The following is a summary of interfund balances at September 30, 2012:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
Agency Fund	General Fund	$ 74
		$ 74

During the course of the year, certain expenditures were paid from the payroll clearing fund in excess of monies transferred.

Note 5 – Intergovernmental Receivables

Intergovernmental receivables at September 30, 2012, consisted of the following:

Decription	Amount
Governmental funds	
General sales tax	$ 82,397
Franchise fees	56,578
Total due from other government agencies	$ 138,975

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Note 6 – Capital assets

The following is a summary of capital assets activity for the year ended September 30, 2012:

	Balance Oct. 1, 2011	Additions	Retirements	Balance Sept 30, 2012
Depreciable capital assets:				
Leased property under captial leases	$ -	176,387	-	176,387
Total depreciable capital assets	-	176,387	-	176,387
Depreciation				
Leased property under capital captial leases	-	1,323	-	1,323
Total accumulated depreciation	-	1,323	-	1,323
Total depreciable capital assets, net	-	175,064	-	175,064
Governmental activities capital assets, net	$ -	175,064	-	175,064

Depreciation expense was charged to the following governmental functions:

Public Safety	$ 1,323
	$ 1,323

Note 7 – Long-term Debt

Transactions for the year ended September 30, 2012 are summarized as follows:

	Balance 10/1/2011	Additions	Balance 9/30/2012	Due Within one Year
Obligations under Capital Leases	$ -	100,128	100,128	-
	$ -	100,128	100,128	-

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. As of September 30, 2012, none of this note had been drawndown.

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 total lease available for draw is $300,000 and has not been established for repayment as of the date of this report. The total lease with Hancock Bank carries an interest rate of 1.18% and will be payable over 5 years beginning in the fall of 2013. As a result future minimum lease payments are not determinable. The present value of the net minimum lease payments as of September 30, 2012 is $100,128.

Note 7 – Long-term Debt

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 then 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, 2012, the amount of outstanding debt was equal to 0% of the latest property assessments.

Note 8 –Sales Tax Revenue

General Sales Tax Revenues

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. General sales tax revenue reported in the General Fund was $318,013.

Note 9 – 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's did not contribute to the deferred compensation plan for the initial period ended September 30, 2012.

Note 10– Commitments and Contingencies

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 upon payment of monthly installments of $31,286.49 to cover all direct salaries and fringe benefits for all 6 deputies and 1 investigator. No amounts were incurred under this agreement in the initial period ended September 30, 012. This agreement expires on December 31, 2013. 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.

Note 11 – Subsequent Events

Events that occur after the Statement of Net Assets 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 Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of the City evaluated the activity of the City through April 4, 2013, (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 has been borrowed an additional $114,549 from the Hancock Bank lease purchase to pay for fixed assets purchased under capital leases.
- The City entered 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 and an additional $22,220 for other fixed asset property.
- Associated with this purchase the City drew down $100,000 of tax anticipation loan established with Hancock Bank of which was subsequently paid back in February 2013.
- In January 2013, the City accepted the transfer of infrastructure including roads, right-of-ways, and drainage easements from the Diamondhead Property Owner's Association.
- The City accepted various fixed assets through private donations.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DIAMONDHEAD, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund
Budget and Actual
(Prepared on the Budgetary Basis)
For the Initial Period Ended September 30, 2012

	Budgeted Amounts		Actual Budgetary Basis	Variances Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
General sales taxes	197,590	197,590	235,616	-	38,026
Fines and forfeitures	-	-	50	-	50
Franchise fees	90,000	90,000	73,962	-	(16,038)
Licenses and permit fees	2,583	2,583	1,650	-	(933)
Investment earnings	-	-	115	-	115
Contributed capital	1,000	1,000	1,000	-	-
Total Revenues	291,173	291,173	312,393	-	21,220
Expenditures:					
General government:					
Personnel services	68,827	68,827	54,770	-	14,057
Supplies	13,875	13,875	12,300	-	1,575
Contractual	250,971	250,971	149,638	-	101,333
Capital outlay	57,500	57,500	8,573	-	48,927
Total general government	391,173	391,173	225,281	-	165,892
Public safety:					
Capital outlay	-	300,000	100,128	300,000	199,872
Total public safety	-	300,000	100,128	300,000	199,872
Total Expenditures	391,173	691,173	325,409	300,000	365,764
Excess (Deficiency) of Revenues Over Expenditures	(100,000)	(400,000)	(13,016)	(300,000)	386,984
Other Financing Sources (Uses):					
Proceeds from long-term debt		300,000	100,128	300,000	(199,872)
Total Other Financing Sources (Uses)	-	300,000	100,128	300,000	(199,872)
Net change in fund balances	(100,000)	(100,000)	87,112	-	187,112
Fund balances - beginning	-	-	-	-	-
Fund balances - ending	$ (100,000)	(100,000)	87,112	-	187,112

The Notes to the Required Supplementary Informatinn are and integral part of this statement.

A. Budgetary Information.

State statues 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 and each major Special Revenue Fund:

	General Fund
Net Change in fund balance - Budget-Cash Basis	$ 87,112
Change in receivable from other governments	138,975
Change in accounts payable	(218,585)
Net Change in fund balance - Fund Financials	$ 7,502

SUPPLEMENTAL INFORMATION

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CITY OF DIAMONDHEAD
Schedule of Surety Bonds
For the Fiscal Initial period ended September 30, 2012

Position	Surety	Bond Amount
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
City Accountant	Traveler's	50,000
Court Clerk	Traveler's	50,000
Police Officer	Traveler's	25,000

SPECIAL REPORTS

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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. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items **12-02.**

We noted certain other matters that we reported to management of the City in a separate letter dated April 4, 2013.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

Weaver Wand Toth & Sup

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
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

April 4, 2013

Honorable Mayor and
City Council
City of Diamondhead, Mississippi

We have audited the basic financial statements as of and for the initial period ended September 30, 2012 and have issued our report dated April 4, 2013. 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 the following material instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

Council Meeting Minutes

Miss. Code Ann. (1972) § 21-15-33 requires that all minutes of council meetings be signed by the Mayor and majority of the Council within 30 days of the meeting. The governing body may by ordinance designate that the minutes be approved by the Mayor.

Finding: During out testing, we noted that minutes of council meetings were not being signed and approved within the 30 day time frame allowed by the State.

Recommendation: We recommend that the City Clerk prepare and present the minutes of the council meetings within the allowable time frame for approval and signature by majority of the Council and Mayor.

City's Response:
We concur with the above recommendation and management has implemented controls to ensure that all minutes are prepared, signed and dated in accordance with State laws.

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Municipal Compliance Questionnaire

The Mississippi State Auditor's Office requires that the Municipal Compliance Questionnaire be prepared and spread on the minutes on the first regular council meeting of the City in the fiscal year.

Finding: The City did not prepare or spread the Municipal Compliance Questionnaire on the minutes of the council meeting.

Recommendation: We recommend that this questionnaire be completed and spread on the minutes of the council meeting at the first available opportunity.

City's Response: We concur with the above recommendation and have completed the Municipal Compliance Questionnaire and have placed it on the agenda for it to be spread across the minutes of the council meetings.

Budget Amendments

Miss. Code Ann. (1972), §21-35-25 requires that the City make legal publication when budgetary changes of 10% or more are made to a department's budget.

Finding: During our audit, we noted that the Mayor/Council approved a capital lease purchase for the police department vehicles not to exceed $300,000. This approval effectively amended the original budget of $0 for the police department. As of September 30, 2012, $100,128 had been expended (cash basis) with another $74,936 (modified accrual basis) being expended in October 2012. This approval, and subsequent budget amendment, is in excess of 10% of the police department's budget and should have been advertised in compliance with Miss. Code Ann. (1972), §21-35-25.

Recommendation: We recommend that the City review its controls over budget to ensure that any approved transactions by the Mayor/Council do not exceed 10% of the original budget, and if this situation should arise, that publication is made appropriately.

City: We have recently hired a City Accountant to track budget amendments and actions of the Mayor/Council to ensure that we remain in compliance with Mississippi State budget laws.

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

This report is intended for the information of the City's management, Mayor and City Council, 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.

Watts Wood Hitt & Sanp

CITY OF DIAMONDHEAD
Schedule of Findings and Questioned Costs
For the Initial Period ended September 30, 2012

Section 1: Summary of Auditor's Results

Financial Statements:

1.	Type of auditors' report issued on the financial statements:	
	Governmental activities	Unqualified
	General and other major funds	Unqualified
	Aggregate remaining fund information	Unqualified
2.	Internal control over financial reporting:	
	a. Material weaknesses identified?	Yes
	b. Significant deficiencies identified that are not considered to be material weaknesses?	No
3.	Noncompliance material to the financial statements noted?	
	Significant deficiencies identified?	Yes

Section 2 – Financial Statement Findings

12-01 *Capital Lease Transactions*

Reporting Requirement: Significant Deficiency
Opinion Unit: Governmental Activities, General Fund

Criteria
All transactions of the City should be reflected in the financial statements and appropriately budgeted.

Condition
During our testing, we noted that transactions for the capital lease purchase of fixed assets were not reflected in the financial statements. Amounts received by the City from proceeds of capital lease were not reflected in the financial statements.

Cause
Invoices for the capital lease purchase of fixed assets were sent directly to Hancock Bank for payment.

Effect
The financial statements of the City did not accurately reflect gross proceeds and capital outlay for the City as of September 30, 2012.

Recommendation
We recommend that the City review its procedures for monitoring controls over recording transactions and its financial reporting. Those procedures should include recording all financial transactions of the City and accurate reporting to the Mayor/Council.

City's Response
We believe this to be a one-time instance. We have currently hired a City Accountant to maintain the City's general accounts and she has taken steps to track capital lease expenditures and capital outlays as they occur.

12-02 ***Budget Amendments***

Reporting Requirement: Compliance
Opinion Unit: Governmental Activities, General Fund

Criteria
Miss. Code Ann. (1972), §21-35-25 requires that the City make legal publication when budgetary changes of 10% or more are made to a department's budget.

Condition
During our audit, we noted that the Mayor/Council approved a capital lease purchase for the police department vehicles not to exceed $300,000. This approval effectively amended the original budget of $0 for the police department. As of September 30, 2012, $100,128 had been expended (cash basis) with another $74,936 (modified accrual basis) being expended in October 2012. This approval, and subsequent budget amendment, is in excess of 10% of the police department's budget and should have been advertised in compliance with Miss. Code Ann. (1972), §21-35-25.

Cause
Unfamiliarity with State budgeting laws caused a failure to properly follow State of Mississippi publication rules.

Effect
Material noncompliance with State laws and regulations.

Recommendation
We recommend that the City review its procedures for monitoring controls budget amendments and its financial reporting. Those procedures should include tracking all decisions made by Mayor/Council they may affect the City's budget and properly following Mississippi State budget laws.

City's Response
We concur with the above recommendation and have put steps in place to monitor controls for budget and expenditures to ensure that the City remains in compliance with State budgeting laws. We have recently hired a City Accountant and will soon be installing and implementing a city-wide integrated software program that will alert management for budget excesses and budget changes.

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City of Diamondhead

5000 Diamondhead Circle, Diamondhead, MS 39525
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FAX: (228) 222-4390
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MAYOR
Chuck Ingraham
228.341.0619

CITY COUNCIL
Dianne Ackerman
228.586.1046

Hank Holcomb
228.255.8690

Ernie Knobloch
228.255.0546

Ron Rech
228.342.2061

Dalton Roberson
228.255.6027

May 6, 2013

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

Re: Annual Municipal Audit

Enclosed please find a copy of the annual audit of the city of Diamondhead, Mississippi, for the fiscal year ended September 30, 2012. In connection with this audit, a separate management letter was written to the City of Diamondhead and is also enclosed.

Sincerely,

Charles H. Ingraham, Jr.
Mayor

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ATTACHMENT #1

APPOINTED OFFICIALS:

MAYOR CHUCK INGRAHAM
COUCIL MEMBERS:
ERNIE KNOBLOCK
DIANNE ACKERMAN
HANK HOLCOMB
RON RECH
DALTON ROBERSON
CITY MANAGER RICHARD ROSE
*CITY CLERK SUE W. FOSTER
5000 DIAMONDHEAD CIRCLE
DIAMONDHEAD, MISSISSIPPI 39525
(228) 222-4626

*contact for more information

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Municipal Compliance Questionnaire

As part of the municipality's audit, the governing authorities of the municipality must make certain assertions with regard to legal compliance. The municipal compliance questionnaire was developed for this purpose.

The following questionnaire and related certification must be completed at the end of the municipality's fiscal year and entered into the official minutes of the governing authorities at their next regular meeting.

The governing authorities should take care to answer these questions accurately. Incorrect answers could reduce the auditor's reliance on the questionnaire responses, resulting in the need to perform additional audit procedures at added cost.

Information

Note: Due to the size of some municipalities, some of the questions may not be applicable. If so, mark N/A in answer blanks. Answers to other questions may require more than "yes" or "no," and, as a result, more information on this questionnaire may be required and/or separate work papers may be needed.

1. Name and address of municipality:
   City of Diamondhead, Mississippi, 5000 Diamondhead Circle, Diamondhead, Mississippi 39525

2. List the date and population of the latest official U.S. Census or most recent official census:
   2010 Census Designated Place (8,425 population)

3. Names, addresses and telephone numbers of officials (include elected officials, chief administrative officer, and attorney).
   See Attachment #1

4. Period of time covered by this questionnaire:

   From: January 30, 2012 To: September 30, 2012

5. Expiration date of current elected officials' term: Current Officials appointed (expires June 30, 2013)

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MUNICIPAL COMPLIANCE QUESTIONNAIRE
Year Ended September 30, 2012

Answer All Questions: **Y** - YES, **N** - NO, **N/A** - NOT APPLICABLE

PART I - General

1. Have all ordinances been entered into the ordinance book and included in the minutes? (Section 21-13-13) ___Y___

2. Do all municipal vehicles have public license plates and proper markings? (Sections 25-1-87 and 27-19-27) ___Y___

3. Are municipal records open to the public? (Section 25-61-5) ___Y___

4. Are meetings of the board open to the public? (Section 25-41-5) ___Y___

5. Are notices of special or recess meetings posted? (Section 25-41-13) ___Y___

5. Are all required personnel covered by appropriate surety bonds?
   - Board or council members (Sec. 21-17-5) ___Y___
   - Appointed officers and those handling money, see statutes governing the form of government (i.e., Section 21-3-5 for Code Charter) ___Y___
   - Municipal clerk (Section 21-15-38) ___Y___
   - Deputy clerk (Section 21-15-23) ___Y___
   - Chief of police (Section 21-21-1) ___Y___
   - Deputy police (Section 45-5-9) (if hired under this law) ___Y___

7. Are minutes of board meetings prepared to properly reflect the actions of the board? (Sections 21-15-17 and 21-15-19) ___Y___

8. Are minutes of board meetings signed by the mayor or majority of the board within 30 days of the meeting? (Section 21-15-33) ___N___

9. Has the municipality complied with the nepotism law in its employment practices? (Section 25-1-53) ___Y___

10. Did all officers, employees of the municipality, or their relatives avoid any personal interest in any contracts with the municipality during their term or within one year after their terms of office or employment? (Section 25-4-105) ___Y___

11. Does the municipality contract with a Certified Public Accountant or an auditor approved by the State Auditor for its annual audit within twelve months of the end of each fiscal year? (Section 21-35-31) ___Y___

12. Has the municipality published a synopsis or notice of the annual audit within 30 days of acceptance? (Section 21-35-31 or 21-17-19) ___N/A___

PART II - Cash and Related Records

1. Where required, is a claims docket maintained? (Section 21-39-7) ___Y___

2. Are all claims paid in the order of their entry in the claims docket? (Section 21-39-9) ___Y___

3. Does the claims docket identify the claimant, claim number, amount and fund from which each warrant will be issued? (Section 21-39-7) ___Y___

4. Are all warrants approved by the board, signed by the mayor or majority of the board, attested to by the clerk, and bearing the municipal seal? (Section 21-39-13) ___Y___

5. Are warrants for approved claims held until sufficient cash is available in the fund from which it is drawn? (Section 21-39-13) ___Y___

6. Has the municipality adopted and entered on its minutes a budget in the format prescribed by the Office of the State Auditor? (Sections 21-35-5, 21-35-7 and 21-35-9) ___Y___

7. Does the municipality operate on a cash basis budget, except for expenditures paid within 30 days of fiscal year end or for construction in progress? (Section 21-35-23) ___Y___

8. Has the municipality held a public hearing and published its adopted budget? (Sections 21-35-5, 27-39-203, & 27-39-205) ___Y___

9. Has the municipality complied with legal publication requirements when budgetary changes of 10% or more are made to a department's budget? (Section 21-35-25) ___N___

10. If revenues are less than estimated and a deficit is anticipated, did the board revise the budget by its regular July meeting? (Section 21-35-25) ___N/A___

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11. Have financial records been maintained in accordance with the chart of accounts prescribed by the State Auditor? (Section 21-35-11) ___Y___

12. Does the municipal clerk submit to the board a monthly report of expenditures against each budget item for the preceding month and fiscal year to date and the unexpended balances of each budget item? (Section 21-35-13) ___Y___

13. Does the board avoid approving claims and the city clerk not issue any warrants which would be in excess of budgeted amounts, except for court-ordered or emergency expenditures? (Section 21-35-17) ___Y___

14. Has the municipality commissioned municipal depositories? (Sections 27-105-353 and 27-105-363) ___Y___

15. Have investments of funds been restricted to those instruments authorized by law? (Section 21-33-323) ___N/A___

16. Are donations restricted to those specifically authorized by law? [Section 21-17-5 (Section 66, Miss. Constitution) -- Sections 21-19-45 through 21-19-59, etc.] ___N/A___

17. Are fixed assets properly tagged and accounted for? (Section II - Municipal Audit and Accounting Guide) ___Y___

18. Is all travel authorized in advance and reimbursements made in accordance with Section 25-3-41? ___Y___

19. Are all travel advances made in accordance with the State Auditor's regulations? (Section 25-3-41) ___Y___

PART III - Purchasing and Receiving

1. Are bids solicited for purchases, when required by law (written bids and advertising)? [Section 31-7-13(b) and (c)] ___Y___

2. Are all lowest and best bid decisions properly documented? [Section 31-7-13(d)] ___Y___

3. Are all one-source item and emergency purchases documented on the board's minutes? [Section 31-7-13(m) and (k)] ___Y___

4. Do all officers and employees understand and refrain from accepting gifts or kickbacks from suppliers? (Section 31-7-23) ___Y___

PART IV - Bonds and Other Debt

1.	Has the municipality complied with the percentage of taxable property limitation on bonds and other debt issued during the year? (Section 21-33-303)	N/A
2.	Has the municipality levied and collected taxes, in a sufficient amount for the retirement of general obligation debt principal and interest? (Section 21-33-87)	N/A
3.	Have the required trust funds been established for utility revenue bonds? (Section 21-27-65)	N/A
4.	Have expenditures of bond proceeds been strictly limited to the purposes for which the bonds were issued? (Section 21-33-317)	N/A
5.	Has the municipality refrained from borrowing, except where it had specific authority? (Section 21-17-5)	Y

PART V - Taxes and Other Receipts

1.	Has the municipality adopted the county ad valorem tax rolls? (Section 27-35-167)	Y
2.	Are interest and penalties being collected on delinquent ad valorem taxes? (Section 21-33-53)	Y
3.	Has the municipality conducted an annual land sale for delinquent ad valorem taxes? (Section 21-33-63)	N/A
4.	Have the various ad valorem tax collections been deposited into the appropriate funds? (Separate Funds for Each Tax Levy) (Section 21-33-53)	N/A
5.	Has the increase in ad valorem taxes, if any, been limited to amounts allowed by law? (Sections 27-39-320 and 27-39-321)	N/A
6.	Are local privilege taxes collected from all businesses located within the municipality, except those exempted? (Section 27-17-5)	Y
7.	Are transient vendor taxes collected from all transient vendors within the municipality, except those exempted? (Section 75-85-1)	Y
8.	Is money received from the state's "Municipal Fire Protection Fund" spent only to improve municipal fire departments? (Section 83-1-37)	N/A

9. Has the municipality levied or appropriated not less than 1/4 mill for fire protection and certified to the county it provides its own fire protection or allowed the county to levy such tax? (Sections 83-1-37 and 83-1-39) N/A

10. Are state-imposed court assessments collected and settled monthly? (Section 99-19-73, 83-39-31, etc.) N/A

11. Are all fines and forfeitures collected when due and settled immediately to the municipal treasury? (Section 21-15-21) N/A

12. Are bids solicited by advertisement or, under special circumstances, three appraisals obtained when real property is sold? (Section 21-17-1) Y

13. Has the municipality determined the full and complete cost for solid waste for the previous fiscal year? (Section 17-17-347) N/A

14. Has the municipality published an itemized report of all revenues, costs and expenses incurred by the municipality during the immediately preceding fiscal year in operating the garbage or rubbish collection or disposal system? (Section 17-17-348) N/A

15. Has the municipality conducted an annual inventory of its assets in accordance with guidelines established by the Office of the State Auditor? (MMAAG) Y

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(MUNICIPAL NAME)

Certification to Municipal Compliance Questionnaire

Year Ended September 30, 20 12

We have reviewed all questions and responses as contained in this Municipal Compliance Questionnaire for the Municipality of City of Diamondhead, Mississippi, and, to the best of our knowledge and belief, all responses are accurate.

(City Clerk's Signature) (Mayor's Signature)

May 20, 2013 May 20, 2013

(Date) (Date)

Minute Book References:

Book Number _____

Page _____

(Clerk is to enter minute book references when questionnaire is accepted by board.)