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5000 Diamondhead Circle • Diamondhead, MS 39525-3260
Phone: 228.222.4626 Fax: 228.222.4390

April 6, 2017

Emily M. McNeil, Division of Technical Assistance
Office of the State Auditor
Post Office Box 956
Jackson, MS 39205

Dear Ms. McNeil:

Enclosed herewith you will find two (2) copies of the Annual Financial Report for the Fiscal Year ended September 30, 2015 for the City of Diamondhead. Also enclosed is a separate management letter submitted by our auditors to the City with the report.

If you have any questions, please feel free to contact my office.

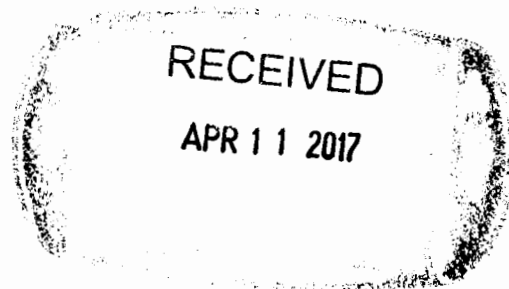
Sincerely,

A handwritten signature in black ink, appearing to read 'Clovis Reed', is written over the word 'Sincerely,'.

Clovis Reed
City Manager

CR:jk

enclosures





ALEXANDER | VAN LOON | SLOAN | LEVENS | FAVRE, PLLC
Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC
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March 29, 2017

Honorable Mayor Thomas Schafer IV
and City Council
City of Diamondhead, Mississippi

We have audited the financial statements of the governmental activities of City of Diamondhead, Mississippi for the year ended September 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated November 13, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Diamondhead, Mississippi 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 the year ended September 30, 2015.

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the depreciable lives and estimated residual value of property and equipment is based on the Mississippi Municipal Audit and Accounting Guide. We evaluated the key factors and assumptions used to develop the estimate of depreciable lives and residual value in determining that it is reasonable in relation to the financial statements taken as a whole.

To the Mayor and Council Members
City of Diamondhead, Mississippi
March 29, 2017

Management's estimate of the allowance for doubtful receivables (court fines) is based on historical data and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the fair value of donated assets from the Diamondhead Property Owner's Association is based on a sample of assessed values of land within the City along with a discount factor for certain items. We evaluated the key factors and assumptions used to develop the estimate of the fair value in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. However, the completion of our audit was delayed due to turnover in City staff and difficulties obtaining required information from accounting software.

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.

The material misstatements shown on pages 5 through 8 detected as a result of audit procedures were corrected by management.

The uncorrected misstatements on page 9 were determined by management to be immaterial to the financial statements, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' 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 March 29, 2017.

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To the Mayor and Council Members
City of Diamondhead, Mississippi
March 29, 2017

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 auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to Management’s Discussion and Analysis and the Budgetary Comparison Schedule (Non-GAAP basis) – General Fund, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

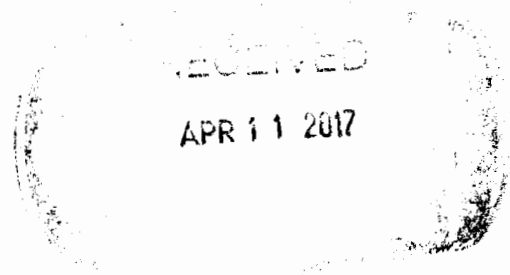
We were not engaged to report on the Listing of City Officials, which accompanies the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

To the Mayor and Council Members
City of Diamondhead, Mississippi
March 29, 2017

Restriction on Use

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

Alexander, Van Loon, Sloan, Levens & Favre
ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi



To the Mayor and Council Members
City of Diamondhead, Mississippi
March 29, 2017

Client: **108601 - City of Diamondhead**
Engagement: **Audit 2015 - City of Diamondhead**
Period Ending: **9/30/2015**
Trial Balance: **3000.01 - TB**
Workpaper: **3502.01 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries				
Adjusting Journal Entries JE # 2				
To adjust fund level short term liability.				
001-000-16300	Compensated Absences Payable		334.00	
001-110-40000	Salaries - Administrative			309.00
001-110-47000	Social Security Match			25.00
Total			334.00	334.00
Adjusting Journal Entries JE # 5				
To adjust current year salary accrual to actual.				
001-000-10400	Wages Payable		4,447.00	
001-000-10400	Wages Payable		22,925.00	
001-110-40000	Salaries - Administrative		470.00	
650-000-92000	TRANSFERS OUT - General Fund		22,925.00	
001-000-92100	Transfers Out - LEASE PURCH/CH NOTE FUND			22,925.00
001-100-40000	Salaries - Administrative			775.00
001-100-47500	Unemployment			7.00
001-140-40000	Salaries - Administrative			801.00
001-140-40002	Salaries - Overtime			1,219.00
001-140-47200	Retirement Match			240.00
001-280-40000	Salaries - Administrative			237.00
001-280-47500	Unemployment			5.00
001-301-40000	Salaries - Administrative			1,364.00
001-301-40002	Salaries - Overtime			188.00
001-301-47200	Retirement Match			56.00
001-301-47500	Unemployment			25.00
650-000-10400	Wages Payable			22,925.00
Total			50,767.00	50,767.00
Adjusting Journal Entries JE # 7				
To record fund level deferred rev for federal grant.				
150-000-00304	GRANT RECEIVABLE		19,268.00	
150-000-25801	Grant - 14 Haz Mit		155,943.00	
150-000-15500	Deferred Grant Revenue			155,943.00
150-000-15500	Deferred Grant Revenue			19,268.00
Total			175,211.00	175,211.00
Adjusting Journal Entries JE # 9				
To record fund level deferred revenue.				
151-000-00304	GRANT RECEIVABLE		2,848.00	
151-000-25082	Grant - 14 CDBG		46,893.00	
151-000-15500	Deferred Revenue			46,893.00
151-000-25082	Grant - 14 CDBG			2,848.00
Total			49,741.00	49,741.00
Adjusting Journal Entries JE # 11				
To adjust fund level for deferred grant revenue.				
001-000-25800	Grant - MDOT		2,742.00	
001-000-15500	Deferred Grant Revenue			2,742.00
Total			2,742.00	2,742.00
Adjusting Journal Entries JE # 15				
To record accrued interest payable.				
001-000-92100	Transfers Out - LEASE PURCH/CH NOTE FUND		2,431.00	
200-800-80601	Lease Purchase and City Hall Project - Interest		2,431.00	
001-000-00152	Accrued Interest Payable			2,431.00
200-000-35600	Transfers In - LEASE PURCH/CH PROJECT FUND			2,431.00
Total			4,862.00	4,862.00
Adjusting Journal Entries JE # 21				
To correct withholding accounts.				
001-280-47300	Health/Life Insurance		1,053.00	

To the Mayor and Council Members
City of Diamondhead, Mississippi
March 29, 2017

650-000-00124	State Unemployment Payable	25.00	
650-000-92000	TRANSFERS OUT - General Fund	1,053.00	
001-000-35500	Transfers In - Fiduciary Fund		1,053.00
650-000-00106	Garnishment Withheld		901.00
650-000-00109	Colonial Withheld		68.00
650-000-00120	Social Security Withheld/Payable		73.00
650-000-00121	Medicare Withheld/Payable		17.00
650-000-00122	Federal Withholding Tax		18.00
650-000-10030	1/2 DOCUMENT FILING FEE		1.00
Total		2,131.00	2,131.00
Adjusting Journal Entries JE # 22			
		7150.07	
To correct balances of taxes receivable.			
001-000-00305	Taxes Receivable LT	7,692.00	
001-000-00280	Taxes Receivable		7,692.00
Total		7,692.00	7,692.00
Adjusting Journal Entries JE # 23			
		7151.05	
To reverse deferred revenue for items outside of scope for fed grant.			
001-000-15500	Deferred Grant Revenue	6,400.00	
150-000-00304	GRANT RECEIVABLE	6,400.00	
001-000-00304	Grant Receivable		6,400.00
150-000-15500	Deferred Grant Revenue		6,400.00
Total		12,800.00	12,800.00
Adjusting Journal Entries JE # 26			
		7300.03	
To reverse PY entries for AP			
001-000-10000	Accounts Payable	30,218.00	
401-000-10000	Accounts Payable	2,330.00	
401-000-35401	Transfers In - Solid Waste	30,218.00	
999-000-10000	Accounts Payable	32,548.00	
001-000-35600	Transfers In -		30,218.00
401-322-69100	Other Services & Charges		32,548.00
999-000-053001	DUE FROM GENERAL FUND		32,548.00
Total		95,314.00	95,314.00
Adjusting Journal Entries JE # 27			
		7300.03	
To adjust AP fund accounts and pooled AP accounts to actual.			
001-000-10000	Accounts Payable	2,935.00	
150-000-90100	Capital Outlay - Building	17,399.00	
150-000-90101	Capital Outlay Match - Building	5,799.00	
650-000-92000	TRANSFERS OUT - General Fund	592.00	
999-000-053300	DUE FROM CAPITAL PROJECTS FUND	23,198.00	
999-000-053650	DUE FROM FIDUCIARY FUND	592.00	
001-000-35500	Transfers In - Fiduciary Fund		592.00
001-140-40000	Salaries - Administrative		2,343.00
150-000-10000	Accounts Payable		23,198.00
650-000-10000	Accounts Payable		592.00
999-000-053001	DUE FROM GENERAL FUND		605.00
999-000-10000	Accounts Payable		23,185.00
Total		50,515.00	50,515.00
Adjusting Journal Entries JE # 29			
		4600.072,4	
To book retainage payable for CIP.			
150-000-90100	Capital Outlay - Building	25,691.00	
151-000-90101	Capital Outlay - Building	5,584.00	
150-000-10700	Retainage Payable		25,691.00
151-000-10700	Retainage Payable		5,584.00
Total		31,275.00	31,275.00
Adjusting Journal Entries JE # 30			
		4600.07	
To record retainage payable for Live Oak project.			
001-301-91200	Capital Outlay - Paving	9,099.00	
001-000-10700	Retainage Payable		9,099.00
Total		9,099.00	9,099.00
Adjusting Journal Entries JE # 32			
		4600.04	
To record receivable for double payment of invoice.			
001-000-00510	Other Receivables	8,371.00	
001-301-54600	Culverts		8,371.00

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To the Mayor and Council Members
City of Diamondhead, Mississippi
March 29, 2017

Total		<u><u>8,371.00</u></u>	<u><u>8,371.00</u></u>
Adjusting Journal Entries JE # 34	7150.043		
To adjust court fines and bad debt expense.			
001-000-00204 Allowance for Uncollectible Accts - Court Fines		55,496.00	
001-000-29000 Court Fines & Fees		8,275.00	
001-000-00203 Court Fines Receivable			8,275.00
001-110-06150 Bad Debt Expense			55,496.00
Total		<u><u>63,771.00</u></u>	<u><u>63,771.00</u></u>
Adjusting Journal Entries JE # 38	7150.04		
To adjust fund level court fine revenue.			
001-000-29000 Court Fines & Fees		54,121.00	
001-000-15900 Deferred Revenue - Court Fines			54,121.00
Total		<u><u>54,121.00</u></u>	<u><u>54,121.00</u></u>
Adjusting Journal Entries JE # 41	4600.04		
To record donation of easements.			
001-301-90000 Capital Outlay - Land		6,301.00	
001-000-39100 Contributions of Assets			6,301.00
Total		<u><u>6,301.00</u></u>	<u><u>6,301.00</u></u>
Adjusting Journal Entries JE # 42	6100.02		
To adjust restricted fund balance.			
001-000-19003 Fund Balance - Restricted		141,211.00	
001-000-19000 Fund Balance - Unreserved			141,211.00
Total		<u><u>141,211.00</u></u>	<u><u>141,211.00</u></u>
Total Adjusting Journal Entries		<u><u>766,258.00</u></u>	<u><u>766,258.00</u></u>
Total All Journal Entries		<u><u>766,258.00</u></u>	<u><u>766,258.00</u></u>

To the Mayor and Council Members
City of Diamondhead, Mississippi
March 29, 2017

Client: 108601 - City of Diamondhead
Engagement: Audit 2015 - City of Diamondhead
Period Ending: 9/30/2015
Trial Balance: 3000.01 - TB
Workpaper: 3506.02 - Passed Journal Entries Report

Account	Description	W/P Ref	Debit	Credit
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Passed Journal Entries JE # 33

TB

To adjust unidentified expenses to equity. PJE will not reverse in subsequent years.

001-000-19000	Fund Balance - Unreserved		17,691.00	
001-140-69100	Other Services & Charges			17,691.00
Total			17,691.00	17,691.00

Passed Journal Entries JE # 35

4600.071

To record CIP not recorded in PY.

001-000-00803	Construction in Process		4,355.00	
001-000-19000	Fund Balance - Unreserved			4,355.00
Total			4,355.00	4,355.00

CITY OF DIAMONDHEAD, MISSISSIPPI
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2015

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CITY OF DIAMONDHEAD, MISSISSIPPI
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INTRODUCTORY SECTION



**CITY OF DIAMONDHEAD, MISSISSIPPI
LISTING OF CITY OFFICIALS
SEPTEMBER 30, 2015**

ELECTED OFFICIALS

Mayor	Thomas E. Schafer, IV
Councilman – Ward 1	Joseph Lopez
Councilman – Ward 2	Blaine LaFontaine (resigned 9/2015) Thomas Woolbright (began 10/2015)
Councilman – Ward 3	Thomas Sislow
Councilman – Ward 4	Ronald Rech
Councilman – At Large	Ernest Knobloch

APPOINTED OFFICIAL

City Manager	Clovis Reed
City Clerk	Kristin Ventura (resigned 4/2016)
City Attorney	Sean Tindell



INDEPENDENT AUDITORS' REPORT

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Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC
Wealth Management

INDEPENDENT AUDITORS' REPORT

March 29, 2017

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

We have audited the accompanying financial statements of the governmental activities of the City of Diamondhead, Mississippi, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

9490 Three Rivers Road | Gulfport, MS 39503 | (228) 863-0411 | Fax (228) 863-1165 | E-Mail: info@avlcpa.com | www.avlcpa.com
304 N. Vardaman Street | P.O. Box 749 | Wiggins, MS 39577 | (601) 928-4416 | Fax (601) 928-4417 | E-Mail: info@avlcpa.com | www.avlcpa.com

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Partnering for CPA Practice Success, National Association of Certified Valuation Analysts



To the Honorable Mayor and City Council
City of Diamondhead
March 29, 2017

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City of Diamondhead, Mississippi, as of September 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 - 11 and 34 - 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Diamondhead, Mississippi's basic financial statements. The introductory section on page 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section 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 them.


In addition, the State of Mississippi requires that municipalities submit a schedule of surety bonds maintained for city personnel in compliance with § 21-17-5 of Mississippi Code of 1972. This schedule has been presented on page 37. This schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of surety bonds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



To the Honorable Mayor and City Council
City of Diamondhead
March 29, 2017

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2017, 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* in considering the City of Diamondhead's internal control over financial reporting and compliance.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi



5000 Diamondhead Circle · Diamondhead, MS 39525-3260
Phone: 228.222.4626 Fax: 228.222.4390
www.diamondhead.ms.gov

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2015

Introduction

The following Management's Discussion and Analysis section of the City of Diamondhead, Mississippi's (the City) activities and financial performance presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal years ended September 30, 2015 and 2014. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow.

Current Year Financial Highlights

- The total assets of the City exceeded total liabilities for the fiscal year ended September 30, 2015 by \$67,093,011 (net position). Of this amount \$4,183,607 (unrestricted net position), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's General Fund's fund balance, which represents the difference between assets minus liabilities, increased by \$118,011 for the period ended September 30, 2015.
- General revenues amounted to \$4,414,620 or 77% of total revenues due primarily to property taxes, sales taxes and State and Local shared revenue. Program revenues amounted to \$1,332,925 or 23% of total revenues.
- Capital Assets were purchased in the amount of \$488,359 in 2015 due primarily to infrastructure projects for drainage and paving as well as vehicles for Public Works. Land worth \$117,001 and a capital asset worth \$1,400 were contributed from private donors. Construction in Progress was \$974,400. Depreciation expense recorded for year ended September 30, 2015 was \$2,323,250.
- The City's total capital assets increased by approximately \$607,000 or 1%; going from \$69.1 million in 2014 to \$70.6 million in 2015. Much of this increase is related to infrastructure projects for drainage and paving.
- As a result of the purchase of City Hall and additional equipment/vehicles, \$1,215,575 and \$181,398, respectively, was the overall outstanding debt owed to Hancock Bank as of September 30, 2015,



MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Current Year Fund Highlights

- *General Fund* – This fund is used for the general operations of the City. Total General Fund revenues were \$5,501,516 and expenditures were \$4,994,307 including \$171,555 in principal and interest payments for capital leases. General Fund operations (excluding principal and interest payments) resulted in \$5,501,516 in revenues and \$4,822,752 in expenditures for 2015.

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

In addition, this report also contains other supplementary information.

Reporting the City of Diamondhead as a Whole

Statement of Net Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City looks at all financial transactions and asks the question, "How did we do financially during 2015?" The Statement of Net Position and the Statement of Activities answer this question.

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

These two statements report the City's net position and the changes in that position. This change in position is important because it tells the reader whether, 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 Position and the Statement of Activities, the City's activities are reported as governmental activities, which include all the City's services including general government, public safety, public works, solid waste, building/planning & zoning, economic development, debt service and capital projects. The City of Diamondhead has no component units.



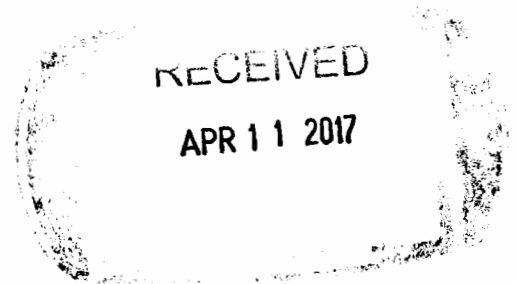
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Governmental Fund

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

Fund Financial Statements

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





MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

The City of Diamondhead as a Whole

Recall that the Statement of Net Position and Statement of Activities look at the City. Table 1 and Table 2 provide a summary of the City's net position and activities for the fiscal years ended September 30, 2015 and 2014.

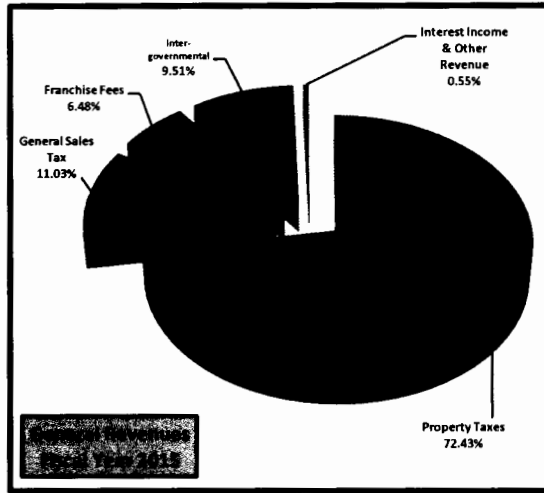
TABLE 1 City of Diamondhead, Mississippi Condensed Statement of Net Position September 30, 2015 and 2014			
	Governmental Activities		
	2015	2014	Change
Assets			
Current assets	\$ 4,585,155	\$ 3,493,756	1,091,399
Capital assets	64,478,943	65,241,957	(763,014)
Total Assets	\$ 69,064,098	\$ 68,735,713	328,385
Liabilities			
Current liabilities	\$ 697,935	\$ 360,384	337,551
Long-term liabilities	1,273,152	1,400,329	(127,177)
Total Liabilities	\$ 1,971,087	\$ 1,760,713	210,374
Net position			
Invested in capital assets, net of related debt	\$ 62,718,739	\$ 63,715,083	(996,344)
Restricted for:			
Capital Projects	\$ 169,165	\$ 310,376	(141,211)
Fire Protection millage assessment	21,500	21,500	-
Unrestricted	4,183,607	2,928,041	1,255,566
Total Net Position	\$ 67,093,011	\$ 66,975,000	118,011

TABLE 2 City of Diamondhead, Mississippi Condensed Statement of Activities For the Fiscal Year ended September 30, 2015 and September 30, 2014			
	Governmental Activities		
	2015	2014	Change
Revenues:			
Program revenues:			
Charges for services	\$ 725,152	\$ 492,951	232,201
Capital grants and contributions	607,773	228,914	378,859
Total program revenues	1,332,925	721,865	611,060
General revenues	4,414,620	4,113,914	300,706
Total revenues	\$ 5,747,545	\$ 4,835,779	911,766
Expenses:			
General government	\$ 1,132,766	\$ 861,541	271,225
Public safety	721,075	606,411	114,664
Public works	3,127,249	2,949,328	177,921
Solid Waste	403,991	291,322	112,669
Building/Planning & zoning	112,538	-	112,538
Economic development	63,806	210,767	(146,961)
Capital Projects	26,455	5,129	21,326
Interest on long-term debt	41,654	40,210	1,444
Total expenses	\$ 5,629,534	\$ 4,964,708	664,826
Increase (Decrease) in net position	118,011	(128,929)	246,940
Net position - beginning	66,975,000	67,103,929	(128,929)
Net position - ending	\$ 67,093,011	\$ 66,975,000	118,011



MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Governmental Activities



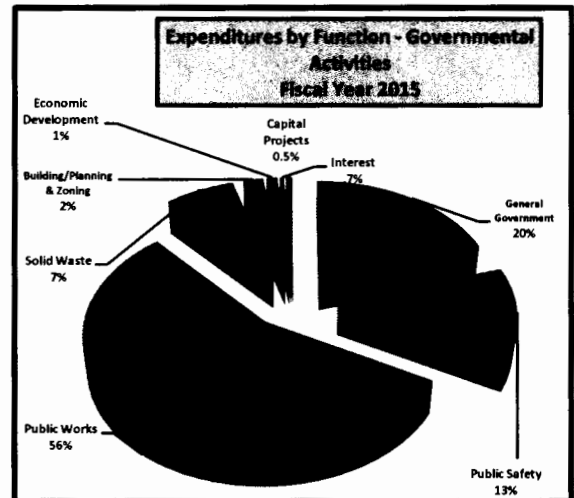
In fiscal year 2015, governmental activities increased the City's net position by \$118,011. Capital asset contributions were recorded in 2015 for fair value (less cash payments) of land and equipment in the amount of \$118,401. Other capital grants for this period totaled \$489,372. The City continues to seek grants and assistance from various other governmental agencies to help provide support for the City's various responsibilities to its citizens. General revenues such as property, franchise, and privilege taxes are not shown by program, but are used to support program activities citywide. Property taxes of \$3,073,930 provided the most funding of the general revenues of the City. Sales taxes of \$536,462 reflect a steady growth. The City has

negotiated franchise agreements with utility companies that generated \$315,122 for the year.

Income from intergovernmental of \$462,433 reflects shared local and shared sources including homestead exemption reimbursement and pro-rata road and bridge taxes.

The public works function is the largest expense for the City during the year ended September 30, 2015. This is largely due to the depreciation expense recorded on infrastructure for the period. However, the cost of general government was 20% while building/planning and zoning was 2% of total expenses.

Public safety expenses make up 13% of total expenses and primarily consist of payments made to Hancock County under an interlocal agreement for the County to provide police protection within the City's municipal borders.



Financial Analysis of the City's Fund

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

The focus of the City's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable and nonspendable resources. Such information may be useful in assessing the City's financing requirements. The unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use at the end of the fiscal year. This fund is accounted for by using the modified accrual basis of accounting.



MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

General Fund

The General Fund had an unassigned fund balance of \$3,498,807 at the end of fiscal year ended September 30, 2015. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 70% of total fund expenditures at the close of year.

Overall, the General Fund's performance resulted in revenues exceeding expenditures for the fiscal year ended September 30, 2015 by \$507,210. To build reserves to provide funding for future capital projects, including streets and drainage maintenance, the City has attempted to operate at the lowest possible cost to its citizens by relying strongly on volunteers and seeking other funding sources. There will be continued efforts to make improvements to the City's infrastructure.

General Fund Budgeting Highlights

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

During 2015, the City amended its general fund budget. All recommendations for a budget change come from the City Manager to the Council for approval. State law does not allow budget changes that modify functional levels of budget amounts within a department without council approval. With the General Fund supporting many of our major activities, such as our police and court departments, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets as of September 30, 2015, and 2014 totaled \$64,478,943 and \$65,241,957, respectively (net of accumulation depreciation). Capital assets include land, streets, vehicles, machinery, equipment, furniture and fixtures.

During the year, the City received approximately \$117,000 in land for drainage easements and \$1,400 in other equipment from various organizations to assist City employees with performing services for the City's citizens. Other additions to capital assets were purchased in the amount of \$488,359 using funds provided mostly by grants and capital leases. Depreciation expense for the year totaled \$2,323,250. Detailed information can be found in the notes to the financial statements on page 27 – 28 of this report.

Debt Administration

At the end of fiscal years 2015 and 2014, the City had capital lease obligations of \$1,396,973 and \$1,526,874, respectively. As of fiscal year ended September 30, 2015, accrued compensated absences totaled \$12,233. Detailed information concerning the City's debt can be found on pages 28 - 29 of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Current Financial Related Activities and Economic Climate

Challenges facing the City at this time are great; however, the Council recognizes its responsibility to use sound fiscal judgment when dealing with issues that arise. The City is looking for ways to improve citizen services with the least amount of cost of government. At present, the City is diligently seeking various grant funding opportunities. Volunteers are also utilized to reduce costs. We welcome new applicants and encourage everyone to volunteer their unique talents. Our City is stronger because 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 serving three-year staggered terms, are appointed by the City Council.

We are finalizing the improvements to city hall. We started major drainage projects throughout the city and have almost finished the upgrade of Live Oak Drive to ease traffic congestion. We have applied for additional grants to improve the traffic flow in and throughout the city as well as add amenities to the city.

We are a young city; nonetheless, we are very vibrant and dedicated to our mission to serving the citizens of Diamondhead. We have accomplished much in our first four years, 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:

Kelly Treadway, Treasurer
City of Diamondhead, Mississippi
5000 Diamondhead Circle
Diamondhead, MS 39525
(228) 222-4626

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FINANCIAL SECTION



BASIC FINANCIAL STATEMENTS



GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF DIAMONDHEAD, MISSISSIPPI
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

	Governmental Activities
ASSETS	
Cash	\$ 3,812,471
Receivables, net	220,004
Due from other governments	315,004
Prepaid items	47,011
Restricted assets:	
Cash	190,665
Capital assets	
Nondepreciable assets	8,488,915
Depreciable assets, net of depreciation	55,990,028
Total capital assets	64,478,943
Total assets	69,064,098
LIABILITIES	
Accounts payable	523,679
Accrued liabilities	27,672
Long-term liabilities:	
Due within one year	
Capital leases	130,468
Accrued interest	10,540
Compensated absences	5,576
Due in more than one year	
Capital leases	1,266,505
Compensated absences	6,647
Total liabilities	1,971,087
NET POSITION	
Invested in capital assets, net of related debt	62,718,739
Restricted for:	
Capital projects	169,165
Fire protection millage assessment	21,500
Unrestricted	4,183,607
Total net position	\$ 67,093,011

The accompanying notes are an integral part of these financial statements.



CITY OF DIAMONDHEAD, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Exhibit B

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	Total Governmental Activities
Primary government				
Governmental Activities				
General government	\$ 1,132,766	\$ 8,484	\$ 607,773	\$ (516,509)
Public safety	721,075	163,142	-	(557,933)
Public works	3,127,249	-	-	(3,127,249)
Solid waste	403,991	447,392	-	43,401
Building/Planning & zoning	112,538	106,134	-	(6,404)
Economic development	63,806	-	-	(63,806)
Capital projects	26,455	-	-	(26,455)
Interest expense	41,654	-	-	(41,654)
Total governmental activities	<u>\$ 5,629,534</u>	<u>\$ 725,152</u>	<u>\$ 607,773</u>	<u>(4,296,609)</u>
General revenues:				
Taxes:				
Property taxes				3,073,930
General sales taxes				536,462
Franchise fees				315,122
Intergovernmental				
State and local shared revenue				462,433
Interest income				9,704
Other revenue				16,969
Total general revenues				<u>4,414,620</u>
Change in net position				118,011
Net position - beginning				<u>66,975,000</u>
Net position - ending				<u>\$ 67,093,011</u>

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The accompanying notes are an integral part of these financial statements.



FUND FINANCIAL STATEMENTS



GOVERNMENTAL FUND FINANCIAL STATEMENTS



**CITY OF DIAMONDHEAD, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2015**

	<u>General Fund</u>
ASSETS	
Cash	\$ 3,812,471
Receivables, net	220,004
Due from other governments	315,004
Prepaid items	47,011
Restricted assets:	
Cash	190,665
Total assets	<u>\$ 4,585,155</u>
 LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 523,679
Accrued liabilities	43,315
Deferred revenue	281,678
Total liabilities	<u>848,672</u>
Fund balance:	
Nonspendable:	
Prepays	47,011
Restricted for:	
Capital projects	169,165
Fire protection millage assessment	21,500
Unassigned	3,498,807
Total fund balance	<u>3,736,483</u>
Total liabilities and fund balance	<u>\$ 4,585,155</u>

The accompanying notes are an integral part of these financial statements.



CITY OF DIAMONDHEAD, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

Total fund balance, governmental fund \$ 3,736,483

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 64,478,943

Certain revenues are not available to pay current period expenditures and therefore are reported as a liability in this fund financial statement. This liability is not reported in the governmental activities of the Statement of Net Position. 281,678

Some liabilities, (such as Notes Payable, Capital Lease Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position. (1,403,620)

Compensated absences that are not liquidated with expendable available financial resources are not included in the fund financial statement, but are reported with the governmental activities of the Statement of Net Position. (473)

Net Position of Governmental Activities in the Statement of Net Position (Exhibit A) \$ 67,093,011

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The accompanying notes are an integral part of these financial statements.



CITY OF DIAMONDHEAD, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 3,073,930
Sales tax	536,462
Fees and fines	109,021
Licenses and permits	132,673
Franchise fees	315,122
Intergovernmental	725,429
Solid waste	447,392
Charges for services	364
Investment earnings	9,704
Miscellaneous	25,088
Capital contributions	126,331
Total revenues	<u>5,501,516</u>
EXPENDITURES	
Current:	
General government	1,108,955
Public safety	617,237
Public works	1,660,730
Solid waste	403,991
Building/Planning & zoning	109,172
Economic development	63,806
Debt service:	
Principal	129,901
Interest and other charges	41,654
Capital outlay	858,860
Total expenditures	<u>4,994,306</u>
Excess of revenues over expenditures	<u>507,210</u>
Net change in fund balance	507,210
Fund balance - beginning	<u>3,229,273</u>
Fund balance - ending	<u><u>\$ 3,736,483</u></u>

The accompanying notes are an integral part of these financial statements.



**CITY OF DIAMONDHEAD, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

Net change in fund balance - total governmental fund: \$ 507,210

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which depreciation (\$2,323,250) exceeded capital asset additions (\$1,562,882) in the current period. (760,368)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 246,028

Governmental funds report repayment of capital lease principal as an expenditure, in contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. 129,901

Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. (4,760)

Change in net position of governmental activities (Exhibit B) \$ 118,011

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The accompanying notes are an integral part of these financial statements.



NOTES TO FINANCIAL STATEMENTS

CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Introduction

The City of Diamondhead, Mississippi, (the "City") was incorporated January 30, 2012 under the laws of the State of Mississippi. The City operates under a council-manager form of government as provided by its charter. The Mayor and five City Council members are elected and serve four-year terms. The City Council directly appoints officers (City Attorney, City Clerk, City Manager, and Presiding Judge) who have full responsibility for carrying out City Council policies and administering day-to-day City operations.

Since the City is newly established, many municipal services are provided through interlocal contracts with independent entities. Police services are provided by the Hancock County Sheriff Department; fire protection services are provided by the Diamondhead Fire District; and water and sewer services are provided by Diamondhead Water and Sewer District. All of these entities have separate elected and/or appointed boards and provide services to residents, generally within the geographic boundaries of the City. They 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.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2015.

II. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units of the City consist of oversight responsibility, special financing relationships and scope of public services. Oversight responsibility is determined by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. Based on these criteria, the City has no component units.

III. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. Taxes and items not properly included as program revenues are reported instead as general revenues.

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements

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

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

(A) Basis of Accounting

The City complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities, and as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles.

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 the timing of the related cash flows. Shared revenues are recognized when the provider recognizes the liability to the City. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been satisfied.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The City considers revenues to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Major revenue sources susceptible to accrual include: property taxes, franchise taxes, sales taxes, and intergovernmental revenues. In general, other revenues are recognized when cash is received by the City.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, as appropriate, then unrestricted resources as needed.



**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**IV. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

(B) Fund Type and Major Fund

The City reports the following major governmental fund:

General Fund - The general fund is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund, when applicable.

(C) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

V. Assets, Liabilities, and Net Position or Equity

(A) Cash and Cash Equivalents

The City's cash and cash equivalents are primarily considered to be cash on hand and amounts held in demand deposits.

State statutes authorize the City to invest in (1) direct obligations of the United States government to the payment of which the full faith and credit of the United States government is pledged, (2) certificates of deposit when insured or secured by acceptable collateral, and (3) obligations of the State of Mississippi, or any county, municipality or school district of the State of Mississippi which have been approved by a reputable bond attorney or have been validated by the decree of the chancery court. Investments, if any, are recorded at cost, which approximates fair value.

(B) Receivables

Court fines receivable is shown net of an estimated allowance for uncollectibles. The estimated uncollectible allowance amount is based on the aging of the receivables, historical collection experience and other relevant circumstances.

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**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Equity (Continued)

(C) Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2015, are recorded as prepaid items. In governmental funds, reported prepaid items are equally offset by nonspendable fund balance amounts, which indicate they do not constitute "available spendable resources" even though they are a component of net current assets. The net change in nonspendable fund balances is not presented because the combined statement of revenues, expenditures, and changes in fund balances reflects the changes in total fund balances rather than just the spendable and nonspendable fund balances.

(D) Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are externally imposed by creditors, contributors, grantors, or laws. Restricted assets in the general fund represent fire protection millage assessments collected that are subject to refund and amounts restricted per loan covenants. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first.

(E) Capital Assets

Capital assets, which include property, plant, equipment, and current infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), net of depreciation, are reported in the government-wide financial statements. The City generally capitalizes assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Major outlays for capital assets and improvements are capitalized as projects are constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Capital assets include significant amounts of donated 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

Buildings	40 years
Improvements	20 years
Infrastructure	20 years
Machinery and equipment	3 - 10 years
Furniture and fixtures	3 - 10 years

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**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Equity (Continued)

(F) Long-term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

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

(G) Compensated Absences

The City's policy on vacation leave allows employees to accrue vacation time based on a certain accrual rate per pay period once that employee has had one year of continuous service for the City. There are no restrictions on when the employees are allowed to take their vacation time. Retiring and voluntarily terminating employees can be paid for up to 15 days of unused vacation. It is the City's policy that all unused sick leave is forfeited upon termination, retirement, or layoff. There is no liability for unpaid accumulated sick leave since sick pay is not paid upon termination of employment. Employees can accrue up to 40 hours per year in years 1-5, 80 hours per year in years 6-10, and 120 hours per year in year 11 and beyond. Employees may roll over up to three most recent years of unused vacation time. All accumulated vacation is accrued when incurred in government-wide financial statements. In fund financial statements, governmental funds report the compensated absences liability payable only if the payable has matured, for example, as a result of employee resignations and retirements or use of vacation time.

The compensated absences liability was computed using the specific identification method whereby the actual number of vacation hours is multiplied by the employee's hourly rate at September 30, 2015. The resulting liability is then increased to include social security that the City is required to pay upon liquidation of the liability.

(H) Fund Equity

As of September 30, 2015, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority of the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.



**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Assets, Liabilities, and Net Position or Equity (Continued)

(H) Fund Equity (Continued)

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's policy, only City Council or an official or body to which the City Council delegates the authority may assign amounts for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council or an official or body to which the City Council delegates the authority has provided otherwise in its commitment or assignment actions.

(I) Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

(J) Capital Contributions

Assets contributed by other organizations and governmental agencies are recorded at fair value at the time of the contribution. Those assets received that will be capitalized are recorded as capital outlay in the fund statements and capital grant and contribution revenues in the statement of activities.

VI. Stewardship, Compliance and Accountability

A. Budgetary and Budgetary Accounting

The procedures used by the City in establishing the 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 City Manager submits to the Mayor and City Council a proposed operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. No later than September 15, the budget is legally enacted through passage of a resolution.



**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

VI. Stewardship, Compliance and Accountability (Continued)

A. Budgetary and Budgetary Accounting (Continued)

4. Formal budgetary integration is employed as a management control device during the year for the governmental fund.
5. Budgets for the governmental fund 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 general governmental fund. 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 Budgetary Comparison Schedule.

NOTE 2: CASH

A summary of cash at September 30, 2015 is as follows:

	Cash on Hand	Pooled Cash Deposits	Total
Governmental Activities			
General Fund	\$ 500	\$4,002,636	\$4,003,136

The City maintained the following restricted assets as of September 30, 2015:

Governmental Activities

Cash

Restricted for fire protection millage assessment	\$ 21,500
Restricted for capital projects	169,165
Total restricted assets - governmental activities	<u>\$ 190,665</u>

The City reports cash as of September 30, 2015 on the statement of net position as follows:

Governmental Activities

Cash	\$ 3,812,471
Restricted assets	190,665
Total cash - governmental activities	<u>\$ 4,003,136</u>



**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 2: CASH (Continued)

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. The collateral 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 City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against 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). 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.

At September 30, 2015, deposits (including restricted deposits) are as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash	<u>\$4,032,107</u>	<u>\$4,002,636</u>

NOTE 3: RECEIVABLES

Receivables at September 30, 2015, consist of the following:

	<u>Amount</u>
Property taxes	\$ 43,188
Franchise taxes	88,068
Court fines	169,438
Solid waste fees	10,215
Other	<u>12,048</u>
Total receivables, gross	322,957
Less allowance for doubtful receivable	<u>(102,953)</u>
Total receivables, net	<u>\$220,004</u>

Property Taxes

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



CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 3: RECEIVABLES (Continued)

Property Taxes (Continued)

Real property taxes become a lien on January 1 and personal property taxes become a lien on March 1 of the current calendar year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicle and mobile homes become a lien and are due in the month that coincides with the month of original purchase. All taxes collected are remitted monthly to the City. In addition, Hancock County also remits to the City a pro-rata share of road and bridge taxes collected by the County. Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available.

All property taxes are recognized as revenue when received. Real property taxes are recognized as revenue when received because most delinquent real property taxes are collected by selling real property for taxes, together with all fees, penalties and damages accruing until date of sale, before the close of the fiscal year. The remaining amount of real property not sold for taxes at the tax sale is considered immaterial; therefore, no end of year delinquent taxes receivable is recorded. The amount of delinquent personal property taxes unpaid at year-end is also considered immaterial.

The rates are expressed in terms of mills. The combined tax rate to finance general government services, including the payment of principal and interest on long-term debt and other purposes for the year ended September 30, 2015, was 34 mills or \$34.00 per \$1,000 of assessed valuation. A summary of the assessed valuations and tax levies of the City for the year ended September 30, 2015, have been provided below.

The assessed valuations of the City for the year ended September 30, 2015, are as follows:

Real property	\$77,733,578
Personal property	1,590,369
Public utilities	248,413
Automobiles	16,121,791
Totals	<u>\$95,694,151</u>

The tax levies for the City for the years ended September 30, 2015, 2014, and 2013 are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
General Fund	<u>34.00</u>	<u>34.00</u>	<u>34.00</u>
Total levy	<u>34.00</u>	<u>34.00</u>	<u>34.00</u>

NOTE 4: DUE FROM OTHER GOVERNMENTS

Due from other governments at September 30, 2015, consists of the following:

Grants	\$ 224,530
Hancock County, ABC permit fees	2,025
State of Mississippi, sales tax diversion	<u>88,449</u>
Total due from other governments	<u>\$ 315,004</u>



CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 4: DUE FROM OTHER GOVERNMENTS (Continued)

Sales Tax

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Diamondhead) back to the City monthly. Sales tax revenue was \$536,462 for the year ended September 30, 2015. Sales tax receivable is included in due from other governments on the statement of net position and balance sheet – governmental funds. Sales tax receivable consists of taxes collected by the State for August and September 2015 and not received by the City until October and November 2015.

NOTE 5: CAPITAL ASSETS

The following is a summary of capital assets activity for the year ended September 30, 2015:

	Balance October 1, 2014	Additions	Disposals	Transfers	Balance September 30, 2015
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 7,397,514	\$ 117,001	\$ -	\$ -	\$ 7,514,515
Construction in progress	18,278	1,101,688	-	(145,566)	974,400
Total capital assets, not being depreciated	7,415,792	1,218,689	-	(145,566)	8,488,915
Capital assets, being depreciated:					
Buildings and improvements	34,095	7,930	-	-	42,025
Machinery and equipment	746,154	130,821	(3,558)	-	873,417
Infrastructure	59,452,581	205,442	-	-	59,658,023
Assets under capital leases	1,438,646	145,566	-	-	1,584,212
Total capital assets, being depreciated	61,671,476	489,759	(3,558)	-	62,157,677
Less accumulated depreciation for:					
Buildings and improvements	(1,193)	(761)	-	-	(1,954)
Machinery and equipment	(87,683)	(130,910)	912	-	(217,681)
Infrastructure	(3,637,950)	(2,114,083)	-	-	(5,752,033)
Assets under capital leases	(118,485)	(77,496)	-	-	(195,981)
Total accumulated depreciation	(3,845,311)	(2,323,250)	912	-	(6,167,649)
Total capital assets, being depreciated, net	57,826,165	(1,833,491)	(2,646)	-	55,990,028
Total governmental activities capital assets, net	\$65,241,957	\$ (614,802)	\$(2,646)	\$(145,566)	\$64,478,943

The majority of the balance in construction in progress at September 30, 2015 includes a balance of \$561,403 on the hazard mitigation project for the City Hall building. The remaining balance of \$412,997 in construction in progress consists of three different projects including road and drainage improvements and ADA improvements for City Hall.



CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 5: CAPITAL ASSETS (Continued)

Assets under capital leases include buildings, grounds, and equipment that were acquired through capital leases financing with a local financial institution (see Note 6 for additional information). As of September 30, 2015, these capitalized assets and the related accumulated depreciation are as follows:

Asset	Capitalized Amount	Accumulated Depreciation
Buildings and grounds - City Hall	\$1,291,265	\$ 55,068
Equipment	292,947	140,913
Total	<u>\$1,584,212</u>	<u>\$ 195,981</u>

Depreciation expense associated with the assets under capital leases in fiscal year 2015 totaled \$77,496 and is included in the statement of activities, general government, public safety, and public works expenses.

Depreciation expense was charged to the following governmental functions:

Governmental Activities

General government	\$ 37,376
Public safety	103,838
Public works	2,175,542
Economic development	6,494
Total governmental activities	<u>2,323,250</u>
depreciation expense	<u>\$2,323,250</u>

NOTE 6: LONG-TERM DEBT

Changes in long-term debt during the year ended September 30, 2015 are as follows:

	Balance October 1, 2014	Additions	Principal Payments/ Reductions	Balance September 30, 2015	Due within One Year
Capital lease payable	\$1,286,415	\$ -	\$ (70,840)	\$ 1,215,575	\$ 70,710
Capital lease payable	240,459	-	(59,061)	181,398	59,758
Compensated absences payable	5,006	18,003	(10,786)	12,223	5,576
Total activities	<u>\$1,531,880</u>	<u>\$ 18,003</u>	<u>\$ (140,687)</u>	<u>\$ 1,409,196</u>	<u>\$136,044</u>



CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 6: LONG-TERM DEBT (Continued)

(A) Capital Leases

At September 30, 2015, the City had the following outstanding capital leases:

	Original Amount	Balance September 30, 2015
Capital lease payable to Hancock Bank, dated August 1, 2013, secured by various equipment, bearing an interest rate of 1.18%, payable in annual installments of \$61,898, which includes both principal and interest, through April 1, 2018.	\$ 300,000	\$ 181,398
Capital lease payable to Hancock Bank, dated July 22, 2014, secured by building and land, bearing an interest rate of 3.09%, payable in annual installments of \$108,271, which includes both principal and interest, beginning on July 1, 2015 through July 1, 2029.	1,286,415	1,215,575
Total capital leases	<u>\$ 1,586,415</u>	<u>\$ 1,396,973</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of September 30, 2015, were as follows:

Year Ending September 30,	Total
2016	\$ 170,169
2017	170,169
2018	170,171
2019	108,272
2020	108,272
2021 - 2025	541,359
2026 - 2029	433,085
Total minimum lease payments	1,701,497
Less amount representing interest	(304,524)
Present value of minimum payments	<u>\$1,396,973</u>

On July 22, 2014, the City acquired its city hall buildings and grounds through a capital lease agreement between Southern Mississippi Investment Co., Inc., Hancock Bank, and the City. Under this agreement, Southern Mississippi Investment Co., Inc.'s purchase of the buildings and grounds was financed by a loan agreement with Hancock Bank. The Hancock Bank loan amount included funds to purchase and renovate the buildings and grounds. An assignment agreement between the parties includes stipulations that Southern Mississippi Investment Co., Inc. assign all its rights, title, and interest in the lease agreement, including receiving rental payment, to Hancock Bank.

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

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NOTE 6: LONG-TERM DEBT (Continued)

(A) Capital Leases (Continued)

Under the terms of these agreements, rental and additional rental payments made by the City are paid directly to Hancock Bank as repayment of Southern Mississippi Investment Co., Inc.'s loan. As of September 30, 2015, the City has \$169,165 in cash that is restricted for city hall buildings and grounds renovation. Any of this restricted cash that is not used when the city hall renovation is complete must be used to prepay the loan.

(B) 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 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, 2015, all of the City's debt was exempt from legal debt margin calculations per state statute.

(C) Interest Expense

For the year ended September 30, 2015, \$41,654 in interest was expensed and is included in the statement of activities under interest expense.

NOTE 7: DEFERRED COMPENSATION PLAN

Plan Description

The City, through the Mississippi Public Employees' Retirement System (PERS), offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code Section 457 and enacted by the Mississippi State Legislature. The Mississippi Deferred Compensation Plan is a supplemental retirement savings plan. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

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 plan is voluntary and contributions are matched up to a certain percent designated by Council. The City matches an employee's contributions on a dollar for dollar basis up to a maximum of 8% of the employee's salary or \$5,000 per fiscal year, whichever is less. The City contributed \$6,573 to the deferred compensation plan for the fiscal year ended September 30, 2015.



CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

NOTE 8: COMMITMENTS AND CONTINGENCIES

(A) 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) Grants and Awards

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally federal and state governments. Any disallowed expenses, including amounts already collected, might constitute a liability of the applicable funds.

(C) Operating Lease Commitments

Non-cancellable operating leases at September 30, 2015 are as follows:

In May 2013, the City entered into a lease agreement for a copier located at the City Hall. The lease agreement is for sixty (60) months with payments of \$219 per month.

In July 2014, the City entered into a lease agreement for a copier located at the Police Department. The lease agreement is for sixty (60) months with payments of \$84 per month.

In August 2014, the City entered into a lease agreement for a copier located at the Purchasing Department Office. The lease agreement is for sixty (60) months with payments of \$84 per month.

Total operating lease payments made during the year ended September 30, 2015 totaled \$4,647.

The future noncancelable lease obligation of these leases at September 30, 2015 is as follows:

<u>Year Ending September 30,</u>	<u>Total</u>
2016	\$ 4,647
2017	4,647
2018	3,552
2019	1,599
	<u>\$ 14,445</u>

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

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NOTE 8: COMMITMENTS AND CONTINGENCIES (Continued)

(D) Contract Commitments

The following represents significant contract commitments as of September 30, 2015:

Interlocal Agreements

Police Protection Services

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 (County), whereby the County will provide all police protection, animal control, investigative services, and other purposes, including 911 services to the City. This agreement was renewed in December 2013 and 2015 and expires on December 31, 2017. This agreement is cancellable upon 60 days written notice by mutual agreement between parties. For the fiscal year ended September 30, 2015, the City paid \$529,882 to the County for services received under the terms of this agreement, which is included in public safety expenses on the statement on activities.

Taxes Collection Services

In February 2012, the City entered into a two year interlocal agreement with Hancock County, Mississippi (County), whereby the County Tax Collector will provide real, personal, and auto ad valorem property taxes collections services for the City. The terms of the agreement include automatic annual renewal. The agreement can be terminated by either party by written notification. Under the terms of the agreement, the County Tax Collector will retain 2% of gross collections as commission, not to exceed \$40,000 per year. For the fiscal year ended September 30, 2015, the City paid \$40,000 to the County Tax Collector for services received under the terms of this agreement, which is included in general government expenses on the statement of activities.

Delinquent Taxes Collection Services

In February 2012, the City entered into a two year interlocal agreement with Hancock County, Mississippi (County), whereby the County Chancery Clerk will provide delinquent tax redemption payments services for the City. The terms of the agreement include automatic annual renewal. The agreement can be terminated by either party by written notification not less than nine months in advance of annual renewal date. Under the terms of the agreement, the County Chancery Clerk will be paid \$10 per parcel for cost incurred. For the fiscal year ended September 30, 2015, the City paid \$15,391 to the County Chancery Clerk for services received under the terms of this agreement, which is included in general government expenses on the statement of activities.

Solid Waste Fees Collections Services

In November 2013, the City entered into a two year interlocal agreement with Hancock County, Mississippi (County), whereby the County Tax Collector will provide solid waste fees collections for the City. Under the terms of the agreement, services commenced on January 1, 2014, and automatically renews annually. The agreement can be terminated by either party. For the fiscal year ended September 30, 2015, the City paid \$13,415 to the County Tax Collector for services received under the terms of this agreement, which is included in solid waste expenses on the statement of activities.

**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

NOTE 8: COMMITMENTS AND CONTINGENCIES (Continued)

(D) Contract Commitments (Continued)

Service Contract

Solid Waste Collections

Currently, the City's solid waste collections are provided through a contract between Hancock County Regional Solid Waste Authority (Authority) and Waste Management of Mississippi, Inc. (Contractor). Under the terms of the contract, the Contractor will collect, haul, and dispose of solid waste generated by the City's residents. The Contractor submits monthly invoices to the Authority for these services. The Authority bills the City for its respective portion of the Contractor's invoices. For the fiscal year ended September 30, 2015, the City paid \$390,576 to the Authority for solid waste collections services, which is included in solid waste expenses on the statement of activities.

(E) Construction Contract Commitments

The City had \$250,438 in outstanding construction contract commitments with respect to unfinished capital projects as of September 30, 2015, which will be paid from existing grants and restricted funds.

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for these risks.

NOTE 10: SUBSEQUENT EVENTS

The City has evaluated events subsequent to year end through March 29, 2017, which is the date the financial statements were available to be issued. The following events were identified:

(A) Construction Contract Commitments

Subsequent to year end, the City entered into approximately \$1,411,299 in construction contracts and change orders related to grant management, street and drainage repairs, paving projects, and city hall renovation projects. These projects are funded by federal grants and city funds.

(B) Grants

Subsequent to year end, the City was awarded approximately \$1,029,916 consisting of Municipal Court Collections Grant, Tidelands Grant, Small Municipalities Grant, and Safe Routes to Schools Grant.

(C) Other Contracts

Subsequent to year end, the City entered into approximately \$989,296 in other contracts, such as professional services and purchases of fixed assets.



REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF DIAMONDHEAD, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
REVENUES				
Taxes				
Ad Valorem - Real Property	\$ 2,217,544	\$ 2,217,544	\$ 2,441,046	\$ 223,502
Ad Valorem - Auto	556,640	556,640	535,735	(20,905)
Ad Valorem - Personal Property	46,942	46,942	53,393	6,451
Ad Valorem - Utilities	8,200	8,200	9,579	1,379
Penalties & Interest	3,000	3,000	34,177	31,177
Licenses and permits				
Privilege Licenses	7,000	7,000	6,659	(341)
Building Permits	50,000	50,000	67,514	17,514
Contractor's Licenses	9,961	9,961	8,150	(1,811)
Franchise Fees	280,000	280,000	315,122	35,122
Planning & Zoning Fees	500	500	4,450	3,950
Reinspection Fees	500	500	-	(500)
Federal grants	348,459	590,296	462,984	(127,312)
State shared revenues	592,600	592,600	866,092	273,492
Local shared revenues	170,000	170,000	181,445	11,445
Interest	5,000	5,000	9,704	4,704
Solid waste	12,990	14,990	24,268	9,278
Fines and forfeitures	26,631	26,631	162,169	135,538
Miscellaneous	1,000	1,000	17,402	16,402
Total revenues	<u>4,336,967</u>	<u>4,580,804</u>	<u>5,199,889</u>	<u>619,085</u>
EXPENDITURES				
Legislative				
Personnel services	26,076	26,076	19,430	6,646
Supplies	500	500	-	500
Other services and charges	9,733	9,733	9,297	436
Total legislative	<u>36,309</u>	<u>36,309</u>	<u>28,727</u>	<u>7,582</u>
Judicial - Municipal Court				
Personnel services	77,671	76,471	57,273	19,198
Supplies	1,000	1,000	378	622
Other services and charges	3,517	4,717	4,695	22
Total judicial court	<u>82,188</u>	<u>82,188</u>	<u>62,346</u>	<u>19,842</u>
Administration				
Personnel services	411,786	392,287	396,963	(4,676)
Supplies	25,540	31,040	19,600	11,440
Other services and charges	526,948	561,388	483,516	77,872
Capital outlay	110,610	110,610	41,161	69,449
Total administration	<u>1,074,884</u>	<u>1,095,325</u>	<u>941,240</u>	<u>154,085</u>
Public safety				
Police				
Supplies	63,400	78,400	60,654	17,746
Other services and charges	630,647	615,647	552,983	62,664
Capital outlay	38,188	38,188	3,600	34,588
Total public safety	<u>732,235</u>	<u>732,235</u>	<u>617,237</u>	<u>114,998</u>
Economic development				
Other services and charges	<u>112,908</u>	<u>138,408</u>	<u>63,806</u>	<u>74,602</u>



CITY OF DIAMONDHEAD, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
EXPENDITURES, Continued				
Building/Planning & zoning				
Personnel services	91,585	91,586	86,071	5,515
Supplies	6,920	6,920	1,910	5,010
Other services and charges	70,574	70,574	17,930	52,644
Capital outlay	1,378	1,378	2,450	(1,072)
Total economic development	<u>170,457</u>	<u>170,458</u>	<u>108,361</u>	<u>62,097</u>
Public works				
Personnel services	844,363	812,363	622,155	190,208
Supplies	171,325	171,325	138,634	32,691
Other services and charges	260,323	260,323	218,998	41,325
Capital outlay	818,750	850,750	675,547	175,203
Total public works	<u>2,094,761</u>	<u>2,094,761</u>	<u>1,655,334</u>	<u>439,427</u>
Miscellaneous				
Special Revenue				
Contractual services	33,006	98,583	78,710	19,873
Capital outlay	541,605	705,590	573,913	131,677
Capital projects				
Contractual services	10,385	11,835	14,653	(2,818)
Capital outlay	224,266	222,816	137,111	85,705
Solid Waste				
Contractual services	12,990	14,990	13,415	1,575
Total miscellaneous	<u>822,252</u>	<u>1,053,814</u>	<u>817,802</u>	<u>236,012</u>
Debt service				
Debt service - building	106,142	106,142	107,575	(1,433)
Debt service - equipment	61,899	61,899	61,549	350
Total debt service	<u>168,041</u>	<u>168,041</u>	<u>169,124</u>	<u>(1,083)</u>
Total expenditures	<u>5,294,035</u>	<u>5,571,539</u>	<u>4,463,977</u>	<u>1,107,562</u>
Excess (deficiency) of revenues over expenditures	<u>(957,068)</u>	<u>(990,735)</u>	<u>735,912</u>	<u>1,726,647</u>
Net change in fund balance	<u>(957,068)</u>	<u>(990,735)</u>	<u>735,912</u>	<u>\$ 1,726,647</u>
Fund balance-beginning, budget basis	<u>2,742,226</u>	<u>2,742,226</u>	<u>3,161,857</u>	
Fund balance-ending, budget basis	<u>\$ 1,785,158</u>	<u>\$ 1,751,491</u>	<u>3,897,769</u>	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of the year.			67,416	
Change in accounts receivable			47,900	
Change in due from other governments			29,808	
Change in accounts payable			(28,741)	
Change in accrued liabilities			1,298	
Change in deferred revenue			(278,967)	
Fund balance-ending, GAAP basis			<u>\$ 3,736,483</u>	

See note to budgetary comparison schedule.



**CITY OF DIAMONDHEAD, MISSISSIPPI
NOTE TO BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

NOTE 1: BUDGETARY DATA

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

On or before August 1 of each year, the City Manager must present the proposed budget to Mayor and the City Council for review. The City Council holds public hearings and a final budget must be prepared and adopted no later than September 15.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. The general government function of the General Fund is treated as a department for budgetary purposes and its budget is adopted at the object level. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level.

The Budgetary Comparison Schedule presents comparisons of legally adopted budgets with actual data on the budgetary basis. Since accounting principles applied for purposes of developing data on the budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of timing differences in the net change in fund balance for the year ended September 30, 2015 is presented at the end of the Budgetary Comparison Schedule.

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OTHER SUPPLEMENTARY INFORMATION



**CITY OF DIAMONDHEAD, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS
SEPTEMBER 30, 2015**

<u>Position</u>	<u>Name</u>	<u>Surety</u>	<u>Bond Amount</u>
Mayor	Thomas Schafer, IV	Traveler's	\$100,000
Council	Ronald Rech	Traveler's	100,000
Council	Ernest Knobloch	Traveler's	100,000
Council	Joseph Lopez	Traveler's	100,000
Council	Blaine LaFontaine (resigned Sept. 2015)	Traveler's	100,000
Council	Thomas Sislow	Traveler's	100,000
Council	Thomas Woolbright (began Oct. 2015)	Traveler's	100,000
City Manager	Clovis Reed	Traveler's	50,000
City Clerk	Kristin Ventura (resigned April 2016)	Traveler's	50,000
Court Clerk	Lolita McSwain	Traveler's	50,000
Building Clerk	Holly Bilbo	Traveler's	50,000
Receptionist	Elaine Bienvenu	Traveler's	50,000
Minutes Clerk	Jeannie Klein	Traveler's	50,000
Accounts Payable Clerk	Herbert Swanson	Traveler's	50,000
Purchasing Clerk	Mary Scott	Traveler's	50,000
Building Official	Ronald Jones	Traveler's	50,000
Bailiff	William Reid	Traveler's	25,000



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

March 29, 2017

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of City of Diamondhead, Mississippi, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise City of Diamondhead, Mississippi's basic financial statements, and have issued our report thereon dated March 29, 2017.

Internal Control Over Financial Reporting

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

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

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



Honorable Mayor and City Council
City of Diamondhead, Mississippi
March 29, 2017

However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and management's responses, as 2015-001 and 2015-002, that we consider to be significant deficiencies.

Compliance and Other Matters

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

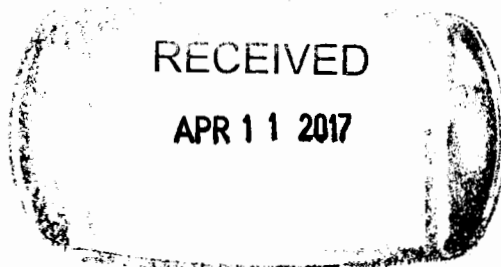
City of Diamondhead, Mississippi's Response to Findings

City of Diamondhead, Mississippi's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Diamondhead, Mississippi's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi





CITY OF DIAMONDHEAD, MISSISSIPPI
SCHEDULE OF FINDINGS AND MANAGEMENT RESPONSES (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

2015-001 Finding

Condition

During fiscal year 2015, a contractor provided surface preparation and paving services as well as paving materials to the City in the amount of \$190,763. The City has a term contract with the contractor to furnish the City with various types of hot bituminous pavement which was used to provide the materials for the paving job. According to the ruling by the Office of the Attorney General of the State of Mississippi, Opinion Number 93-0468, if the "vendor" is in fact the party actually performing significant site design, preparation and/or construction in addition to delivering the product "in place" then the job would qualify as a public works contract and must be competitively bid as such. Accordingly, the City failed to bid a public works contract in excess of \$50,000 as required by the Mississippi Code Annotated § 31-7-13 (2014).

Criteria

Per Mississippi Code Annotated § 31-7-13 (2014) all agencies must follow a specific bidding procedure for purchases over \$50,000.

Effect

Failure to comply with the Mississippi State Code could potentially result in criminal and/or civil charges, and costly litigation for the City.

Recommendation

We recommend the City establish policies and procedures to ensure that all state laws are followed when procuring bids for projects in excess of \$50,000.

Management's Response

During the finalization of the fiscal year 2014 audit in September 2015, the City was made aware of the ruling by the Office of the Attorney General of the State of Mississippi, Opinion Number 93-0468. The finding above for fiscal year 2015 occurred prior to the City learning of the ruling. Effective September 2015, the City of Diamondhead established a procedure to ensure that the City procures bids for public works contracts in excess of \$50,000.

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CITY OF DIAMONDHEAD, MISSISSIPPI
SCHEDULE OF FINDINGS AND MANAGEMENT RESPONSES (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2015

2015-002 Finding

Condition

During the review of Court Fines and Fees, the City was unable to readily determine revenues and receivables due to the City generated through the court. Trends and variances in court activities were also not able to be explained.

Criteria

The City is currently unable to produce an accurate report detailing the uncollected court fine balance at September 30, 2015. Without an accurate subsidiary ledger showing outstanding court fines, the City is unable to record a receivable and related allowance. Also, without accurate receivable reports, the City cannot easily identify overdue fines and may not be pursuing collection of those fines.

The City is currently utilizing court reporting software that has not been able to generate the necessary reports for financial reporting or for appropriate tracking. The Court Clerk maintains manual records to track partial payments which are not integrated into the financial reporting software and could be susceptible to error or fraud.

Effect

Failure to accurately record fines, fees, and receivables could result in the misstatement of the City's financial statements.

Recommendation

We recommend outstanding fines receivable should be balanced monthly and a periodic analysis should be made to determine such things as the age of receivables. A record must be kept to account for each defendant's charges, payments, balances due and status. Once the receivable has been totally collected or some other disposition has been ordered by the court, the case record should disclose the final disposition. Obligations may not be written off without specific legal authority as there is no statute of limitation that runs against a municipality. The City should establish appropriate policies and procedures to ensure that all revenues and receivables are recorded and appropriately tracked in accordance with state laws and guidance from the State Auditor.

Management's Response

The City will establish policies and procedures for accurate and appropriately tracking revenues and receivables through municipal court.





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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH MISSISSIPPI STATE LAWS AND REGULATIONS

March 29, 2017

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

We have audited the basic financial statements of the City of Diamondhead as of and for the year ended September 30, 2015 and have issued our report dated March 29, 2017. 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 basic financial statements disclosed the following material instances of noncompliance with state laws and regulations. Our findings and recommendations are as follows:

Finding:

The City failed to send the published bid information for the Live Oak Drive construction project, costing approximately \$207,500, to the Mississippi Procurement Technical Assistance Program. Per Miss. Code Ann. § 31-7-13 (2014) all agencies must follow a specific bidding procedure for purchases over \$50,000. Agencies must advertise for competitive bids once each week for two consecutive weeks in a regular newspaper published in the county or municipality in which such agency is located. On the same date the notice is submitted to the newspaper for publication, the agency or governing authority involved shall mail written notice to, or provide electronic notification to the main office of the Mississippi Procurement Technical Assistance Program under the Mississippi Development Authority that contains the same information as that in the published notice. Although the City contracted with an engineering firm to handle the bidding process, this does not relieve the City of its responsibility to follow state law.

Management's response:

The City will develop policy and procedure to ensure proper state law guidelines are followed concerning the advertisement of bids for projects over \$50,000. The City implemented these policies and procedures effective October 1, 2016.




Finding:

Section 21-35-31 (1) of the Mississippi Code requires that the governing authority of every municipality in the state shall have the municipal books audited annually, before the close of the next succeeding fiscal year, in accordance with procedures and requirements prescribed by the State Auditor. The City did not meet the requirements of having the municipal books audited before the close of the next succeeding fiscal year. We recommend that the City implement procedures to ensure that its audit of the financial statements is performed timely in accordance with state law.

Management's response:

The City will develop procedures to ensure the audit requirements are met in accordance with the state law. The City implemented these procedures effective October 1, 2016.

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


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

