

City of Diamondhead, Mississippi
Audited Financial Statements and Special Reports
For the Year Ended September 30, 2019

September 3, 2020

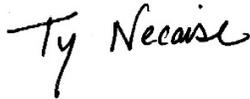
Honorable Mayor and City Council
City of Diamondhead, Mississippi

Dear Honorable Mayor and City Council:

We are pleased to submit to you the 2019 financial and compliance audit report for The City of Diamondhead. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

We appreciate the cooperation and courtesy extended by the officials and employees of the City of Diamondhead throughout the audit. If we or this office can be of any further assistance, please contact us at (228) 236-3622.

Respectfully submitted,



Ty J Necaise, MBA, CPA

City of Diamondhead, Mississippi
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INTRODUCTORY SECTION

**City of Diamondhead, Mississippi
Elected Officials
September 30, 2019**



Thomas E. Schafer, IV (Deceased)
Mayor



Lindsay "Tink" L'Ecuyer
Councilman-At-Large



Nancy Depreo
Ward 1
Mayor Pro Tempore



Alan Moran
Ward 2



Jamie Wetzel Morgan
Ward 3

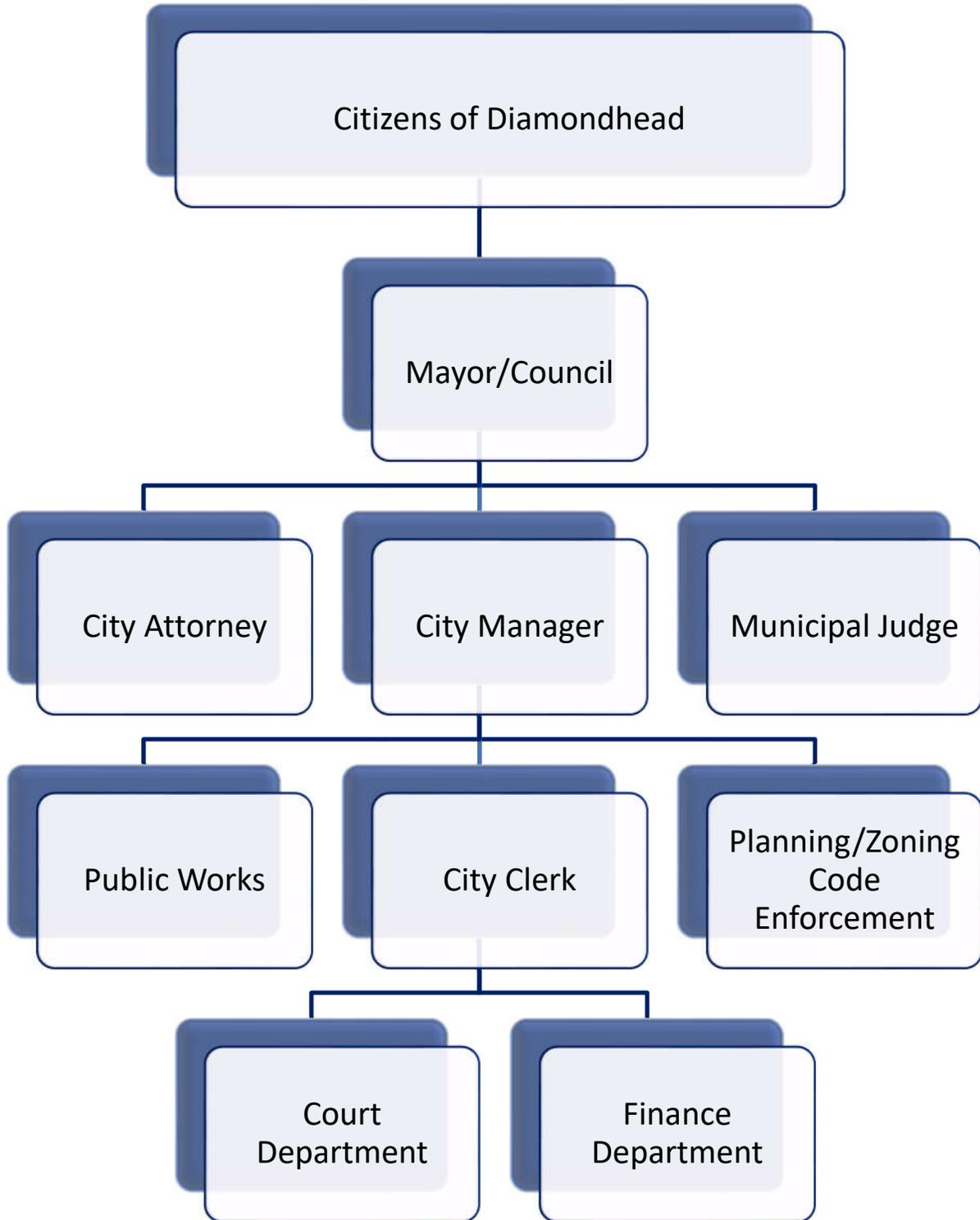


Kodie Koenenn
Ward 4
(Left Office: January 2020)



Charles S. Clark
Ward 4
(Took Office: January 2020)

City of Diamondhead, Mississippi
Organization Chart
September 30, 2019



FINANCIAL SECTION

Independent Auditor's Report

Honorable Mayor and City Council
City of Diamondhead, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Diamondhead, Mississippi, (the City) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Diamondhead, Mississippi, as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof 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 8 and 37 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Diamondhead, Mississippi’s basic financial statements. The accompanying Schedule of Surety Bonds for City Officials is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Surety Bonds for City Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2020, on our consideration of the City of Diamondhead, Mississippi’s internal control over financial reporting and 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 the effectiveness of the City of Diamondhead, Mississippi’s 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, Mississippi’s internal control over financial reporting and compliance.

Necaise & Company PLLC

Necaise & Company PLLC
Gulfport, Mississippi
September 3, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS



This section of the City of Diamondhead, Mississippi's Annual Financial Report presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal year ended September 30, 2019 and 2018. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow.

The City of Diamondhead is located in southeastern Hancock County, Mississippi, United States. The city is located just over 50 miles northeast of New Orleans, Louisiana. It is part of the Gulfport-Biloxi Metropolitan Statistical Area. According to the United States Census Bureau's recent estimates, the estimated population of the City of Diamondhead as of July 1, 2019, is 8,044. The median household income is \$67,207 with over 96.9% of persons 25 years or older holding a high school degree or higher.

Within this section of the report, the City of Diamondhead, Mississippi's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

The components of this annual financial report include:

- Management's Discussion and Analysis (MD&A)
- Financial Statements
- Required Supplementary Information (RSI)
- Supplementary and Other Information

Government-Wide Financial Highlights

- The total assets of the City exceeded total liabilities for the fiscal year ended September 30, 2019 by \$64,955,665 (net position). Of this amount \$5,912,898 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- General revenues amounted to \$5,157,871 or 82% of total revenues. This amount increased \$119,789 from 2018. Program revenues amounted to \$1,141,928 or 18% of total revenues, which increased \$305,678 from 2018.
- Capital assets, net of accumulated depreciation, decreased by \$1,107,801 during 2019. The decrease in governmental capital assets is primarily due to annual depreciation.
- Outstanding debt owed to Hancock Bank decreased by \$138,544.

Fund Statement Financial Highlights

- *General Fund* – This fund is used for the general operations of the City. The General Fund had \$5,138,388 in revenues and \$4,055,190 in expenditures in the current year. The General Fund's fund balance increased \$815,436 for fiscal year 2019.
- *Exit Lighting Fund* – This fund is a capital projects fund used for capital expenditures associated with I-10 Exit lighting. The Exit Lighting Fund received grant income of \$533,827 and disbursed \$649,070 toward this capital project for fiscal year 2019.
- *East Aloha Widening Fund* – This fund is a capital projects fund used for capital expenditures associated with East Aloha Drive. The East Aloha Widening Fund disbursed \$13,692 toward this capital project for fiscal year 2019.

Fund Statement Financial Highlights (continued)

- *Montjoy Creek Fund* – This fund is a capital projects fund used for capital expenditures associated with Montjoy Creek. The Montjoy Creek Fund received grant income of \$28,704 and disbursed \$30,174 toward this capital project for fiscal year 2019.
- *Solid Waste Fund* – This fund is a special revenue fund that is meant to be self-supporting. The Solid Waste Fund accounts for the revenue, expenditures, and transfers associated with the collection and recycling or disposal of solid waste. The Solid Waste Fund had \$597,533 in revenues and \$617,328 in expenditures for fiscal year 2019.

Overview of the Financial Statements

Management's Discussion and Analysis is considered *Required Supplementary Information* but is presented as part of the financial section of this report. The MD&A introduces the City's financial statements and any additional information to supplement them.

Financial Statements for the City consist of Government-Wide Statements (Statement of Net Position and the Statement of Activities), Fund Statements (Balance Sheet- Governmental Funds, Statement of Revenues, Expenditures, and Changes in Fund Balances), the Statement of Fiduciary Assets and Liabilities and the accompanying Notes to the Financial Statements. Government-Wide Statements provide information about the City's assets and liabilities and its revenues and expenses using the accrual basis of accounting similar to the accounting used by private sector companies.

Fund Statements are prepared on the modified accrual basis of accounting and are designed to report information on near-term inflows, outflows, and balances of spendable and non-spendable resources. Such information may be useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, and Capital Project Funds.

The accompanying *Notes to the Financial Statements* provide information essential to a full understanding of the financial statements. The Notes begin immediately following the Statement of Fiduciary Assets and Liabilities.

Other Information

Required Supplementary Information consists of information that is considered to be an essential part of financial reporting and should be reported with, but not as a part of, the basic financial statements. Although the MD&A is considered RSI, it is presented in the financial section of this report.

Supplementary Information is presented for informational purposes only and is not considered essential to the financial report.

Financial Analysis*Statement of Net Position and the Statement of Activities*

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

These two statements report the City's net position and the changes in those assets. This change in assets is important because it tells the reader whether the financial position of the City has improved or diminished.

In the Statement of Activities, the City's activities are reported as governmental activities, which include all of the City's services including general government, public safety, public works, building/planning and zoning, community services, and solid waste. As of September 30, 2019, the City has no component units.

Financial Analysis (continued)*Statement of Net Position and the Statement of Activities (continued)*

The following table (Table 1) presents the condensed statement of net position as of September 30, 2019 and 2018, derived from the City's Statement of Net Position (Exhibit 1).

*Table 1: Condensed Statement of Net Position
As of September 30,*

	2019	2018	Change
Current and other assets	\$ 9,876,979	\$ 8,953,494	\$ 923,485
Capital assets, net	<u>59,939,599</u>	<u>61,047,400</u>	<u>(1,107,801)</u>
Total assets	<u>69,816,578</u>	<u>70,000,894</u>	<u>(184,316)</u>
Current and other liabilities	497,810	377,024	120,786
Long-term debt	<u>1,109,963</u>	<u>1,248,507</u>	<u>(138,544)</u>
Total liabilities	<u>1,607,773</u>	<u>1,625,531</u>	<u>(17,758)</u>
Total deferred inflows	<u>3,253,140</u>	<u>3,130,931</u>	<u>122,209</u>
Net position:			
Net investment in capital assets	58,829,636	59,798,893	(969,257)
Restricted	213,131	70,919	142,212
Unrestricted	<u>5,912,898</u>	<u>5,374,620</u>	<u>538,278</u>
Total net position	<u>\$ 64,955,665</u>	<u>\$ 65,244,432</u>	<u>\$ (288,767)</u>

The City's net position at fiscal year-end is \$64,955,665. This is a \$288,767 decrease from last year's net position of \$65,244,432. The decrease is primarily due to annual depreciation on capital assets.

The City reported a positive balance in net position for both 2019 and 2018. The following is a summary of the more significant changes:

- Cash, receivables, and other assets increased \$923,485.
- Long-term debt decreased by \$138,544.
- Capital assets decreased by \$1,107,801. This decrease was primarily due to current year depreciation.

Financial Analysis (continued)*Statement of Net Position and the Statement of Activities (continued)*

The following table (Table 2) presents the City's condensed statement of activities for the fiscal years ended September 30, 2019 and 2018. For more detailed information see the Statement of Activities (Exhibit 2).

*Table 2: Condensed Statement of Activities
For the Years Ended September 30,*

	2019	2018	Change
<i>Revenues</i>			
Program revenues	\$ 1,141,928	\$ 836,250	\$ 305,678
General revenues	<u>5,157,871</u>	<u>5,038,082</u>	<u>119,789</u>
Total revenues	<u>6,299,799</u>	<u>5,874,332</u>	<u>425,467</u>
<i>Expenses</i>			
General government	1,059,880	1,301,258	(241,378)
Public safety	1,255,175	996,301	258,874
Public works	4,085,262	3,842,067	243,195
Culture & recreation	48,989	31,548	17,441
Conservation of natural resources	15,185	14,989	196
Economic development & assistance	89,477	476	89,001
Interest on long-term debt	<u>34,598</u>	<u>29,215</u>	<u>5,383</u>
Total expenses	<u>6,588,566</u>	<u>6,215,854</u>	<u>372,712</u>
Increase (decrease) in net position	<u>(288,767)</u>	<u>(341,522)</u>	<u>52,755</u>
Net Position, beginning	65,244,432	65,731,961	(487,529)
Prior Period Adjustment	<u>-</u>	<u>(146,007)</u>	<u>146,007</u>
Net Position, beginning, restated	<u>65,244,432</u>	<u>65,585,954</u>	<u>(341,522)</u>
Net Position, ending	<u>\$ 64,955,665</u>	<u>\$ 65,244,432</u>	<u>\$ (288,767)</u>

Fund Financial Statements

Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established several funds, which account for the multitude of services provided to residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Diamondhead, the major funds are the General Fund, Exit Lighting Fund, East Aloha Widening Fund, Montjoy Creek Fund, and the Solid Waste Fund.

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

Budgetary Highlights

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

During the course of 2019, the City amended its budget. All recommendations for a budget change come from the City Clerk to the Council for approval. State law does not allow budget changes that modify functional levels of budget amounts within a department without council approval. With the General Fund supporting many of our major activities, such as our public safety expenditures, public works, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments.

Capital Assets

Net capital assets at year-end are \$59,939,599, which reflects a \$1,107,801 decrease from the prior year. The significant decrease is primarily due to current year depreciation expense.

Debt Administration

At year-end, the City had \$1,109,963 in outstanding debt. The debt consists of two (2) capital leases used for the City Hall building and grounds and public works equipment. For more information, see the accompanying notes to the financial statements.

Economic Factors

The City has not identified any significant economic factors to report.

Contacting the City's Management

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

City of Diamondhead, MS
Attention: Michael J. Reso, City Manager
5000 Diamondhead Circle
Diamondhead, MS 39525

FINANCIAL STATEMENTS

City of Diamondhead, Mississippi
Statement of Net Position
September 30, 2019

Exhibit 1

ASSETS

Cash	\$ 6,037,415
Cash, restricted	86,148
Property tax receivable	3,253,140
Franchise tax receivable	76,434
Fines receivable (net of allowance for uncollectibles of \$373,858)	22,556
Prepaid expenses	62,094
Intergovernmental receivables	301,880
Other assets	37,312
Capital assets:	
Nondepreciable capital assets	8,347,344
Depreciable capital assets, net	<u>51,592,255</u>
Total Assets	<u>69,816,578</u>

LIABILITIES

Accounts payable and accrued liabilities	314,942
Due to other governmental agencies	137,609
Accrued interest payable	9,062
Other payables	8,032
Long-term liabilities:	
Compensated absences	28,165
Due within one year	
Capital debt	142,153
Due in more than one year	
Capital debt	<u>967,810</u>
Total Liabilities	<u>1,607,773</u>

DEFERRED INFLOWS OF RESOURCES

Property tax for future reporting period	<u>3,253,140</u>
Total Deferred Inflows of Resources	<u>3,253,140</u>

NET POSITION

Net investment in capital assets	58,829,636
Restricted for:	
General government	147,714
Public safety	43,379
Public works	24,840
Conservation of natural resources	(1,470)
Economic development	(1,332)
Unrestricted	<u>5,912,898</u>
Total Net Position	<u>\$ 64,955,665</u>

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

City of Diamondhead, Mississippi
Statement of Activities
For the Year Ended September 30, 2019

Exhibit 2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Capital Grants</u>	<u>Revenue and</u>
		<u>Services</u>	<u>and</u>	<u>Changes in Net</u>
			<u>Contributions</u>	<u>Position</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities				
General government	\$ 1,059,880	\$ -	\$ -	\$ (1,059,880)
Public safety	1,255,175	-	-	(1,255,175)
Public works	4,085,262	596,319	517,619	(2,971,324)
Culture and recreation	48,989	-	-	(48,989)
Conservation of natural resources	15,185	-	13,715	(1,470)
Economic development and assistance	89,477	-	14,275	(75,202)
Interest on long-term debt	34,598	-	-	(34,598)
Total governmental activities	<u>\$ 6,588,566</u>	<u>\$ 596,319</u>	<u>\$ 545,609</u>	<u>\$ (5,446,638)</u>
General revenues:				
				\$ 3,459,624
Property taxes				673,547
General sales taxes				206,503
Road and bridge privilege taxes				275,701
Franchise taxes				130,490
Unrestricted interest income				192,475
Capital contributions				219,531
Miscellaneous				<u>5,157,871</u>
Total general revenues				<u>(288,767)</u>
Change in Net Position				
Net position, October 1, 2018				<u>65,244,432</u>
Net position, September 30, 2019				<u>\$ 64,955,665</u>

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

City of Diamondhead, Mississippi
Balance Sheet – Governmental Funds
September 30, 2019

Exhibit 3

	<i>General Fund</i>	<i>Exit Lighting Fund</i>	<i>East Aloha Widening Fund</i>	<i>Montjoy Creek Fund</i>	<i>Solid Waste Fund</i>	<i>Other Governmental Funds</i>	<i>Totals</i>
ASSETS							
Cash	\$ 5,494,873	\$ -	\$ 119,572	\$ 198,530	\$ 47,771	\$ 176,669	\$ 6,037,415
Cash, restricted	63,847	-	-	-	-	22,301	86,148
Receivables:							
Property tax	3,253,140	-	-	-	-	-	3,253,140
Fines, net	22,556	-	-	-	-	-	22,556
Franchise tax	76,434	-	-	-	-	-	76,434
Due from other funds	458,879	-	-	-	-	-	458,879
Intergovernmental receivables	181,449	2,879	298	2,134	-	14,275	201,035
Prepaid expenses	62,094	-	-	-	-	-	62,094
Other assets	37,312	-	-	-	-	-	37,312
Total Assets	<u>\$ 9,650,584</u>	<u>\$ 2,879</u>	<u>\$ 119,870</u>	<u>\$ 200,664</u>	<u>\$ 47,771</u>	<u>\$ 213,245</u>	<u>\$ 10,235,013</u>
LIABILITIES							
Accounts payable	\$ 311,160	\$ -	\$ 372	\$ 2,134	\$ -	\$ 1,276	\$ 314,942
Intergovernmental payables	86,983	-	-	-	50,626	-	137,609
Due to other funds	-	2,879	100,000	200,000	-	156,000	458,879
Other payables	8,032	-	-	-	-	-	8,032
Total Liabilities	<u>406,175</u>	<u>2,879</u>	<u>100,372</u>	<u>202,134</u>	<u>50,626</u>	<u>157,276</u>	<u>919,462</u>
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - property taxes	3,253,140	-	-	-	-	-	3,253,140
Unavailable revenue - fines	22,556	-	-	-	-	-	22,556
Total Deferred Inflows of Resources	<u>3,275,696</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,275,696</u>
FUND BALANCES							
Restricted:							
General government	63,847	-	-	-	-	-	63,847
Public safety	-	-	-	-	-	22,301	22,301
Committed:							
Public works	-	-	19,498	-	(2,855)	35,000	51,643
Conservation of natural resources	-	-	-	(1,470)	-	-	(1,470)
Economic development	-	-	-	-	-	(1,332)	(1,332)
Unassigned	5,904,866	-	-	-	-	-	5,904,866
Total Fund Balances	<u>5,968,713</u>	<u>-</u>	<u>19,498</u>	<u>(1,470)</u>	<u>(2,855)</u>	<u>55,969</u>	<u>6,039,855</u>
Total Liabilities and Fund Balances	<u>\$ 9,650,584</u>	<u>\$ 2,879</u>	<u>\$ 119,870</u>	<u>\$ 200,664</u>	<u>\$ 47,771</u>	<u>\$ 213,245</u>	<u>\$ 10,235,013</u>

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

City of Diamondhead, Mississippi
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position
September 30, 2019

Exhibit 3-1

Total Fund Balance - Governmental Funds	\$ 6,039,855
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$ 15,768,383.	59,939,599
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Fine receivable	22,556
Other intergovernmental receivable	100,845
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds.	
Compensated absences	(28,165)
Capital debt	(1,109,963)
Interest on long-term debt	<u>(9,062)</u>
Total Net Position - Governmental Activities	<u>\$ 64,955,665</u>

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

City of Diamondhead, Mississippi
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2019

Exhibit 4

	<i>General Fund</i>	<i>Exit Lighting Fund</i>	<i>East Aloha Widening Fund</i>	<i>Montjoy Creek Fund</i>	<i>Solid Waste Fund</i>	<i>Other Governmental Funds</i>	<i>Totals</i>
REVENUES							
Property taxes	\$ 3,459,624	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,459,624
General sales taxes	673,547	-	-	-	-	-	673,547
Franchise taxes	275,701	-	-	-	-	-	275,701
Road and bridge privilege taxes	384,627	-	-	-	-	-	384,627
Licenses, commissions and other revenue	124,439	-	-	-	-	-	124,439
Fines and forfeitures	69,996	-	-	-	-	-	69,996
Intergovernmental revenues	13,500	533,827	298	28,704	-	14,275	590,604
Charges for services	-	-	-	-	596,319	-	596,319
Interest	128,043	-	-	-	1,214	1,233	130,490
Other revenues	8,911	-	-	-	-	14,989	23,900
Total revenues	<u>5,138,388</u>	<u>533,827</u>	<u>298</u>	<u>28,704</u>	<u>597,533</u>	<u>30,497</u>	<u>6,329,247</u>
EXPENDITURES							
Current:							
General government	1,214,513	-	-	-	-	-	1,214,513
Public safety	1,125,885	-	-	-	-	65,523	1,191,408
Public works	1,436,502	649,070	13,692	-	617,328	-	2,716,592
Culture and recreation	34,065	-	-	-	-	-	34,065
Conservation of natural resources	-	-	-	30,174	-	-	30,174
Economic development and assistance	69,870	-	-	-	-	19,607	89,477
Debt service:							
Capital lease	138,544	-	-	-	-	-	138,544
Interest	<u>35,811</u>	-	-	-	-	-	<u>35,811</u>
Total expenditures	<u>4,055,190</u>	<u>649,070</u>	<u>13,692</u>	<u>30,174</u>	<u>617,328</u>	<u>85,130</u>	<u>5,450,584</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,083,198</u>	<u>(115,243)</u>	<u>(13,394)</u>	<u>(1,470)</u>	<u>(19,795)</u>	<u>(54,633)</u>	<u>878,663</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	181,330	44,100	-	-	43,175	268,605
Transfers out	(268,605)	-	-	-	-	-	(268,605)
Insurance proceeds	<u>843</u>	-	-	-	-	-	<u>843</u>
Total other financing sources (uses)	<u>(267,762)</u>	<u>181,330</u>	<u>44,100</u>	<u>-</u>	<u>-</u>	<u>43,175</u>	<u>843</u>
Net change in fund balances	815,436	66,087	30,706	(1,470)	(19,795)	(11,458)	879,506
Fund balances, October 1, 2018	5,153,277	(66,087)	-	-	16,940	56,219	5,160,349
Fund reclassification	-	-	(11,208)	-	-	11,208	-
Fund balances, September 30, 2019	<u>\$ 5,968,713</u>	<u>\$ -</u>	<u>\$ 19,498</u>	<u>\$ (1,470)</u>	<u>\$ (2,855)</u>	<u>\$ 55,969</u>	<u>\$ 6,039,855</u>

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

City of Diamondhead, Mississippi
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2019

Exhibit 4-1

Net Changes in Fund Balances - Governmental Funds	\$ 879,506
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlays	1,398,720
Depreciation expense	(2,505,278)
In the Statement of Activities, only gain and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the loss.	
	(1,243)
Fine revenue recognized on the modified cash basis in the funds during the current year is increased because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	
	2,678
Road & bridge privilege tax recognized on the modified accrual basis in the funds during the current year is decreased because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	
Current year accrual	100,845
Recognized on Statement of Net Position in the prior year	(310,464)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount of debt repayments.	
Principal payments	138,544
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:	
Compensated absences	6,712
Accrued interest	<u>1,213</u>
Changes in Net Position of Governmental Activities	<u>\$ (288,767)</u>

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

City of Diamondhead, Mississippi
Statement of Fiduciary Assets and Liabilities
September 30, 2019

Exhibit 5

Assets

Current assets:

Cash	\$	10,981
Other receivables		<u>17,237</u>
Total assets		<u><u>28,218</u></u>

Liabilities

Current liabilities:

Amounts held in custody of others		10,981
Due to other governments		<u>17,237</u>
Total liabilities	\$	<u><u>28,218</u></u>

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 1: Summary of Significant Accounting Policies

These financial statements of the City of Diamondhead, Mississippi were prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities (GAAP). The following summary of the more significant accounting policies of the City is presented to assist the reader in interpreting these financial statements, and should be viewed as an integral part of this report.

Reporting Entity

The City of Diamondhead was incorporated January 20, 2012 under the laws of the State of Mississippi. The City is a municipal corporation governed by a five-member council and mayor. Diamondhead operated under a council-manager form of government as provided by its Charter. The Mayor and five City Council members are elected and serve four-year terms. The City Council directly appoints officers (City Attorney, City Clerk, City Manager, and Presiding Judge) who have full responsibility for carrying out City Council policies and administering day-to-day city operations. Since the City is newly established, many municipal services including police and fire protection are contracted with Hancock County, Mississippi.

The accounting and reporting policies of the City relating to the funds and accounts groups included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*, and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below.

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

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in Accounting Principles Generally Accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity. The following are excluded from the reporting entity:

- Diamondhead Fire District
- Diamondhead Water and Sewer District

These potential component units have separate elected and/or appointed boards and provide services to residents through inter-local agreements with the city. These are excluded from the reporting entity because the City does not have the ability to exercise influence or control over their daily operations, approve budgets or provide funding.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 1: Summary of Significant Accounting Policies (continued)

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, fund financial statements and accompanying note disclosures, which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information concerning the City as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues.

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

Fund Financial Statements:

Fund financial statements of the City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows, liabilities, deferred inflows, fund balances, revenues and expenditures/expenses. Funds are organized into governmental and fiduciary. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column as Other Governmental Funds.

Measurement Focus and Basis of Accounting

The Government-wide and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the City. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

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

Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 1: Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

The City reports the following major Governmental Funds:

General Fund – This fund is used to account for all activities of the general government for which a separate fund has not been established.

Exit Lighting Fund– This fund is a capital projects fund used for capital expenditures associated with I-10 Exit lighting.

East Aloha Widening Fund – This fund is a capital projects fund used for capital expenditures associated with East Aloha Drive.

Montjoy Creek Fund – This fund is a capital projects fund used for capital expenditures associated with Montjoy Creek.

Solid Waste Fund– This fund is a special revenue fund that is meant to be self-supporting. The Solid Waste Fund accounts for the revenue, expenditures, and transfers associated with the collection and recycling or disposal of solid waste.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds – These funds are used to account for and report the proceeds of specific revenue resources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

FIDUCIARY FUND TYPE

Agency Funds – These funds account for various taxes, deposits and other monies collected or held by the City, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2012 by the Government Finance Officers Association.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 1: Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

Deposits and Investments

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

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

Receivables

Receivables are reported net of allowances for uncollectible accounts, where applicable. The estimated uncollectible allowance amount is based on the aging of receivables, historical collection experience, and other relevant circumstances.

Interfund Transactions and Balances

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

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items, such as prepaid insurance, are not reported for Fiduciary Fund Types since the costs of such items are accounted for as expenditures in the period of acquisition.

Capital Assets

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available.

Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards require governments meeting certain criteria to retroactively report major general infrastructure assets by September 30, 2007. Current year general infrastructure assets are required to be reported. General infrastructure assets acquired after September 30, 1980, are reported on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 1: Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year.

The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life (years)
Land	\$ -	N/A
Infrastructure	-	20
Buildings	10,000	40
Improvements other than buildings	5,000	20
Mobile equipment	1,000	5-10
Furniture and equipment	1,000	5-10
Leased property under capital leases	*	*

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Unavailable revenue – property tax (Property taxes for future reporting period): Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Unavailable revenue – fines: When an asset is recorded in the governmental fund financial statements, but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

Long-term Liabilities

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

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 1: Summary of Significant Accounting Policies (continued)

Equity Classifications

Government-wide Financial Statements:

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

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

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

Unrestricted net position – All other net position not meeting the definition of “restricted” or “net investment in capital assets.”

Net Position Flow Assumption – When an expense is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the City’s general policy to use restricted resources first. When expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the City’s general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

Fund Financial Statements:

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

Governmental fund balance is classified as non-spendable, restricted, committed, assigned, or unassigned. The following are descriptions of fund classifications used by the City:

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund. Currently, there are no nonspendable fund balances.

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

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the 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.

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 1: Summary of Significant Accounting Policies (continued)

Property Tax Revenues

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.

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

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

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 in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

Intergovernmental Revenues in Governmental Funds

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

Compensated Absences

The City has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements.

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. 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, 2019. The resulting liability is then increased to include payroll taxes that the City is required to pay upon liquidation of the liability.

Use of Estimates

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 2: Cash

Primary Government

The carrying amount of the City's total deposits with financial institutions at September 30, 2019, was \$6,134,544, and the bank balance was \$6,144,947. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk

Custodial credit risk is the risk that in the event of 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. 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.

Note 3: Interfund Transactions and Balances

The following is a summary of interfund balances at September 30, 2019:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Exit Lighting Fund	\$ 2,879
	East Aloha Widening Fund	100,000
	Montjoy Creek Fund	200,000
	Other Governmental Funds	<u>156,000</u>
		<u>\$ 458,879</u>

Transfers In/Out

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Exit Lighting Fund	General Fund	\$ 181,330
East Aloha Widening Fund		44,100
Other Governmental Funds		<u>43,175</u>
		<u>\$ 268,605</u>

The principal purpose of interfund transfers was to provide funds for to pay for capital outlay. Other transfers were made to reimburse for expenditures made on behalf of other fund purposes. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 4: Intergovernmental Receivables

Intergovernmental receivables at September 30, 2019, consisted of the following:

<i>Description</i>	<u><i>Amount *</i></u>
Due from state	\$ 133,748
Various federal and local sources	<u>67,287</u>
Intergovernmental receivables, Exhibit 3	<u>201,035</u>
Long-term other intergovernmental receivable	<u>100,845</u>
Intergovernmental receivables, Exhibit 1	<u><u>\$ 301,880</u></u>

* The City has a long term receivable for Road and Bridge Privilege taxes from Hancock County, therefore, a long-term receivable was recognized on the government-wide statements.

Note 5: Capital Assets

	<u><i>Balance</i></u>			<u><i>Adjustments/</i></u>	<u><i>Balance</i></u>
	<u><i>10/1/2018</i></u>	<u><i>Additions</i></u>	<u><i>Reductions</i></u>	<u><i>Transfers</i></u>	<u><i>9/30/2019</i></u>
Capital assets, not being depreciated					
Land	\$ 8,003,901	\$ 148,000	\$ -	\$ -	\$ 8,151,901
Construction in progress	<u>173,217</u>	<u>1,108,247</u>	<u>-</u>	<u>(1,086,021)</u>	<u>195,443</u>
Total capital assets, not being depreciated	<u>8,177,118</u>	<u>1,256,247</u>	<u>-</u>	<u>(1,086,021)</u>	<u>8,347,344</u>
Capital assets, being depreciated					
Infrastructure	62,386,277	1,067,521	-	-	63,453,798
Building and improvements	1,867,637	62,204	-	-	1,929,841
Improvement other than buildings	1,030	-	-	-	1,030
Mobile equipment	1,760,931	74,633	(6,594)	-	1,828,970
Furniture and equipment	<u>129,692</u>	<u>24,136</u>	<u>(6,829)</u>	<u>-</u>	<u>146,999</u>
Total capital assets, being depreciated	<u>66,145,567</u>	<u>1,228,494</u>	<u>(13,423)</u>	<u>-</u>	<u>67,360,638</u>
Less accumulated depreciation for:					
Infrastructure	12,162,866	2,235,564	-	-	14,398,430
Building and improvements	136,991	46,026	-	-	183,017
Improvement other than buildings	98	52	-	-	150
Mobile equipment	887,617	200,913	(5,630)	-	1,082,900
Furniture and equipment	<u>87,713</u>	<u>22,723</u>	<u>(6,550)</u>	<u>-</u>	<u>103,886</u>
Total accumulated depreciation	<u>13,275,285</u>	<u>2,505,278</u>	<u>(12,180)</u>	<u>-</u>	<u>15,768,383</u>
Total capital assets, being depreciated, net	<u>52,870,282</u>	<u>(1,276,784)</u>	<u>(1,243)</u>	<u>-</u>	<u>51,592,255</u>
Capital assets, net	<u><u>\$ 61,047,400</u></u>	<u><u>\$ (20,537)</u></u>	<u><u>\$ (1,243)</u></u>	<u><u>\$ (1,086,021)</u></u>	<u><u>\$ 59,939,599</u></u>

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 5: Capital Assets (continued)

Depreciation expense was charged to the following functions:

General government	\$ 75,733
Public safety	102,608
Public works	2,312,013
Culture and recreation	<u>14,924</u>
	<u>\$ 2,505,278</u>

Commitments with respect to unfinished capital projects at September 30, 2019, consisted of the following:

<u>Description</u>	<u>Remaining Financial Commitment</u>	<u>Expected Completion Date</u>
Diamondhead Drive West	46,250	September 2020
Turnberry Drainage Project	5,320	December 2019
I-10 Frontage Road Project	37,953	September 2020
Gex Drive Lighting	<u>25,500</u>	September 2020
	<u>\$ 115,023</u>	

Note 6: Claims and Judgments

Risk Financing

The City finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The City pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2019 to January 1, 2019. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

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

Note 7: Capital Leases

As Lessee:

The City is obligated for the following capital assets acquired through capital leases as of September 30, 2019:

<u>Class of Property</u>	<u>Governmental Activities</u>
Building and grounds, City Hall	2,234,408
Furniture and equipment	311,567
Less: accumulated depreciation	<u>(288,372)</u>
Leased property under capital lease	<u>2,257,603</u>

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 8: Long-term Debt

Debt outstanding as of September 30, 2019, consisted of the following:

	<i>Original Amount</i>	<i>Balance 9/30/2019</i>	<i>Maturity</i>	<i>Interest Rate</i>
<i>Capital Lease:</i>				
City Hall	\$ 1,286,415	\$ 919,352	2029	3.09%
Public Works Vehicles & Equipment	<u>311,567</u>	<u>190,611</u>	2022	1.99%
<i>Total Outstanding Debt</i>	<u>\$ 1,597,982</u>	<u>\$ 1,109,963</u>		

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Position are as follows:

<i>Year Ending September 30,</i>	<i>Capital Lease</i>	
	<i>Principal</i>	<i>Interest</i>
2020	142,153	32,201
2021	145,861	28,494
2022	149,669	24,685
2023	87,498	20,773
thereafter	<u>584,782</u>	<u>64,847</u>
Total	<u>\$ 1,109,963</u>	<u>\$ 171,000</u>

Capital Leases

On July 22, 2014, the City acquired its City Hall buildings and grounds through a capital lease agreement between Southern Mississippi Investment Co., Inc. and Hancock Bank. 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 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.

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, 2019, the City has \$63,847 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.

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, 2019, all of the City's debt was exempt from legal debt margin calculations per state statute.

Interest Expense

For year ended September 30, 2019, \$34,598 in interest was expensed and is included in the Statement of Activities under interest expense.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 8: Long-term Debt (continued)

The following is a summary of change in long-term liabilities and obligations for the year ended September 30, 2019:

	<i>Balance</i> <u>10/1/2018</u>	<i>Additions</i>	<i>Payments</i>	<i>Balance</i> <u>9/30/2019</u>	<i>Due Within</i> <u>One Year</u>
Capital leases	1,248,507	-	(138,544)	1,109,963	142,153
Compensated absences	<u>43,253</u>	<u>9,972</u>	<u>(17,028)</u>	<u>36,197</u>	<u>8,032</u>
Total	<u>\$ 1,291,760</u>	<u>\$ 9,972</u>	<u>\$ (155,572)</u>	<u>\$ 1,146,160</u>	<u>\$ 150,185</u>

Compensated absences will be paid from the funds from which the employee’s salaries were paid; which are generally the General Fund and Road Maintenance Fund.

Note 9: Deficit Fund Balances of Individual Funds

The following funds reported deficits in fund balances at September 30, 2019:

<u>Fund</u>	<u>Deficit</u>
Montjoy Creek Fund	1,470
Commercial Area Improvement Fund	1,332
Solid Waste Fund	2,855

Note 10: Commitments and Contingencies

Federal Grants

The City has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the City. No provision for any liability that may result has been recognized in the City’s financial statements due to the fact that such estimates cannot be made.

Litigation

The City is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at this time to estimate the 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 lawsuits will not have a material adverse effect on the financial condition of the City.

The City has been named defendant in various lawsuits seeking unspecified damages for incidents. The City maintains a liability insurance coverage that it believes would cover any judgement against the City up to a limit of \$1,000,000 with a deductible of \$5,000 for each wrongful act. No provision has been made in the accompanying financial statements for this contingent liability since the amount of the potential loss, if any, cannot be reasonably estimated.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 10: Commitments and Contingencies (continued)

Operating Lease Commitments

Non-cancellable operating leases at September 30, 2019 are as follows:

- In July 2014, the City entered into a lease agreement for a copier located at the Police Department. The lease agreement was for sixty (60) months with payments of \$84 per month. A twenty-four (24) month extension was granted in May 2019 with payments of \$42 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. A twenty-four (24) month extension was granted in May 2019 with payments of \$42 per month.
- In February 2017, 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 \$187 per month.
- In April 2017, the City entered into a lease agreement for a copier located at the Public Works office. The lease agreement is for sixty (60) months with payments of \$82 per month.
- In October 2018, the City entered into a lease agreement for a copier located at the Building Department Office. The lease agreement is for sixty (60) months with payments of \$281 per month.

Total operating lease payments made during the year ended September 30, 2019 totaled \$8,415.

The future non-cancellable lease obligation of these leases at September 30, 2019 is as follows:

<u>Year Ended September 30,</u>	<u>Total</u>
2020	\$ 7,615
2021	5,415
2022	3,375
2023	<u>3,375</u>
Total	<u>\$ 19,780</u>

Interlocal Agreements and Service Contracts

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, 2015, and 2018 and expires on December 31, 2019. This agreement is cancellable upon 60 days written notice by mutual agreement between parties.

Tax Collection Services

In February 2012, the City entered into an interlocal agreement with Hancock County, Mississippi (County), whereby the County Tax Collector will provide real, personal, and auto ad valorem property taxes collection 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.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 10: Commitments and Contingencies (continued)

Interlocal Agreements and Service Contracts (continued)

Delinquent Taxes Collection Services

In February 2012, the City entered into an interlocal agreement with Hancock County, Mississippi (County), whereby the County Chancery Clerk will provide delinquent tax redemption payment 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 agreement, the County Chancery Clerk will be paid \$10 per parcel for cost incurred.

Solid Waste Fees Collections Services

In November 2013, the City entered into an 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.

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.

Note 11: No Commitment Debt (Not Included in Financial Statements)

No commitment debt is repaid only by the entities for whom debt was issued and includes debt that either bears the City's name or for which a moral responsibility may exist that is not an enforceable promise to pay. No commitment debt explicitly states the absence of obligation by the City other than possibly an agreement to assist creditors in exercising their rights in the event of default. As of the date of this report, the City has not identified any such debt.

Note 12: Jointly Governed Organizations

The Hancock County Regional Solid Waste Management Authority (the Authority) is a governmental entity originally formed by an agreement between the City of Bay St. Louis, Mississippi, the City of Waveland, Mississippi, and Hancock County, Mississippi pursuant to the Interlocal Cooperation Act of 1974. The Authority was officially incorporated in March 1998 pursuant to incorporation agreement entered into in December 1997. The Authority is to function for purposes of solid waste management for the participating units of local government, the Cities of Bay St. Louis, Waveland, Diamondhead, and Hancock County, Mississippi, in fulfilling their obligations to establish, operate, and maintain a garbage collections and disposal system.

The Authority is governed by a Board of Commissioners composed of eight commissioners: two appointed by Hancock County Board of Supervisors and the remaining appointed by the member units of local government pursuant to the Act.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2019

Note 13: Deferred Compensation Plan

Plan Description

The City, as administered through the MS Deferred Compensation Plan, offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Service Code Section 457 and enacted by the Mississippi State Legislature. The Mississippi Deferred Compensation Plan is a supplementary 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 \$31,838 to the deferred compensation plan for the fiscal year ended September 30, 2019.

Note 14: Subsequent Events

Events that occur after the Statement of Net Position date, but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes.

Management of The City of Diamondhead evaluated the activity of the City through September 3, 2020, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

REQUIRED SUPPLEMENTARY INFORMATION

City of Diamondhead, Mississippi
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
For the Year Ended September 30, 2019
 UNAUDITED

General Fund

	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Variance with</i>
	<i>Budget</i>	<i>Budget</i>	<i>(Budgetary</i>	<i>Final Budget</i>
	<u><i>Budget</i></u>	<u><i>Budget</i></u>	<i>Basis)</i>	<i>Positive</i>
				<i>(Negative)</i>
<i>Revenues</i>				
Property taxes	\$ 3,406,931	\$ 3,429,581	\$ 3,527,260	\$ 97,679
General sales taxes	550,000	650,000	676,593	26,593
Franchise taxes	255,000	275,000	273,936	(1,064)
Road and bridge privilege taxes	239,886	378,970	386,004	7,034
Licenses, commission and other revenue	112,200	127,200	124,095	(3,105)
Fines and forfeitures	61,800	61,800	48,561	(13,239)
Intergovernmental revenues	18,245	18,245	18,428	183
Interest income	60,000	120,000	128,043	8,043
Miscellaneous	4,370	2,540	2,275	(265)
Total revenues	<u>4,708,432</u>	<u>5,063,336</u>	<u>5,185,195</u>	<u>121,859</u>
<i>Expenses</i>				
<i>Current:</i>				
General government	1,327,618	1,362,037	1,315,552	46,485
Public safety	1,242,222	1,251,284	1,123,837	127,447
Public works	2,384,411	2,714,299	1,565,013	1,149,286
Culture and recreation	34,065	34,065	34,065	-
Economic development and assistance	65,000	114,000	69,870	44,130
<i>Debt service:</i>				
Capital lease	138,544	138,544	138,544	-
Interest	35,811	35,811	35,811	-
Total expenditures	<u>5,227,671</u>	<u>5,650,040</u>	<u>4,282,692</u>	<u>1,367,348</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(519,239)</u>	<u>(586,704)</u>	<u>902,503</u>	<u>1,489,207</u>
<i>Other Financing Sources</i>				
Insurance proceeds	-	-	843	843
Transfers out	(165,039)	(260,170)	(268,605)	(8,435)
Total other financing sources (uses)	<u>(165,039)</u>	<u>(260,170)</u>	<u>(267,762)</u>	<u>(7,592)</u>
Net change in fund balance	(684,278)	(846,874)	634,741	1,481,615
Fund balance, October 1, 2018	<u>1,321,950</u>	<u>1,827,926</u>	<u>5,247,694</u>	<u>3,419,768</u>
Fund balance, September 30, 2019	<u>\$ 637,672</u>	<u>\$ 981,052</u>	<u>\$ 5,882,435</u>	<u>\$ 4,901,383</u>

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

City of Diamondhead, Mississippi
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
For the Year Ended September 30, 2019
 UNAUDITED

Exit Lighting Fund

	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Variance with</i>
	<u><i>Budget</i></u>	<u><i>Budget</i></u>	<u><i>(Budgetary</i></u>	<u><i>Final Budget</i></u>
			<u><i>Basis)</i></u>	<u><i>Positive</i></u>
				<u><i>(Negative)</i></u>
<i>Revenues</i>				
Intergovernmental revenues	\$ 503,755	\$ 503,755	\$ 530,949	\$ 27,194
Total revenues	<u>503,755</u>	<u>503,755</u>	<u>530,949</u>	<u>27,194</u>
<i>Expenses</i>				
Current:				
Public works	<u>556,067</u>	<u>649,080</u>	<u>649,070</u>	<u>10</u>
Total expenditures	<u>556,067</u>	<u>649,080</u>	<u>649,070</u>	<u>10</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(52,312)</u>	<u>(145,325)</u>	<u>(118,121)</u>	<u>27,204</u>
<i>Other Financing Sources</i>				
Transfers in	<u>125,939</u>	<u>177,071</u>	<u>181,330</u>	<u>4,259</u>
Total other financing sources	<u>125,939</u>	<u>177,071</u>	<u>181,330</u>	<u>4,259</u>
Net change in fund balance	73,627	31,746	63,209	31,463
Fund balance, October 1, 2018	-	-	(66,087)	(66,087)
Fund balance, September 30, 2019	<u>\$ 73,627</u>	<u>\$ 31,746</u>	<u>\$ (2,878)</u>	<u>\$ (34,624)</u>

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

City of Diamondhead, Mississippi
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
For the Year Ended September 30, 2019
 UNAUDITED

East Aloha Widening Fund

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
<i>Revenues</i>				
Intergovernmental revenues	\$ 136,400	\$ 136,400	\$ -	\$ (136,400)
Total revenues	<u>136,400</u>	<u>136,400</u>	<u>-</u>	<u>(136,400)</u>
<i>Expenses</i>				
Current:				
Public works	<u>145,760</u>	<u>169,292</u>	<u>13,692</u>	<u>155,600</u>
Total expenditures	<u>145,760</u>	<u>169,292</u>	<u>13,692</u>	<u>155,600</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,360)</u>	<u>(32,892)</u>	<u>(13,692)</u>	<u>19,200</u>
<i>Other Financing Sources</i>				
Transfers in	<u>34,100</u>	<u>44,100</u>	<u>44,100</u>	<u>-</u>
Total other financing sources	<u>34,100</u>	<u>44,100</u>	<u>44,100</u>	<u>-</u>
Net change in fund balance	24,740	11,208	30,408	19,200
Fund balance, October 1, 2018	<u>(11,208)</u>	<u>(11,208)</u>	<u>(11,208)</u>	<u>-</u>
Fund balance, September 30, 2019	<u>\$ 13,532</u>	<u>\$ -</u>	<u>\$ 19,200</u>	<u>\$ 19,200</u>

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

City of Diamondhead, Mississippi
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
For the Year Ended September 30, 2019
 UNAUDITED

Montjoy Creek Fund

	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Variance with</i>
	<i>Budget</i>	<i>Budget</i>	<i>(Budgetary</i>	<i>Final Budget</i>
	<u>Budget</u>	<u>Budget</u>	<i>Basis)</i>	<i>Positive</i>
			<u>Basis)</u>	<i>(Negative)</i>
<i>Revenues</i>				
Intergovernmental revenues	\$ 250,000	\$ 552,333	\$ 26,570	\$ (525,763)
Total revenues	<u>250,000</u>	<u>552,333</u>	<u>26,570</u>	<u>(525,763)</u>
<i>Expenses</i>				
Current:				
Conservation of natural resources	<u>250,000</u>	<u>537,333</u>	<u>30,174</u>	<u>507,159</u>
Total expenditures	<u>250,000</u>	<u>537,333</u>	<u>30,174</u>	<u>507,159</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>15,000</u>	<u>(3,604)</u>	<u>(18,604)</u>
Net change in fund balance	-	15,000	(3,604)	(18,604)
Fund balance, October 1, 2018	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, September 30, 2019	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ (3,604)</u>	<u>\$ (18,604)</u>

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

City of Diamondhead, Mississippi
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
For the Year Ended September 30, 2019
 UNAUDITED

Solid Waste Fund

	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Variance with</i>
	<i>Budget</i>	<i>Budget</i>	<i>(Budgetary</i>	<i>Final Budget</i>
	<u> </u>	<u> </u>	<i>Basis)</i>	<i>Positive</i>
			<u> </u>	<i>(Negative)</i>
<i>Revenues</i>				
Charges for services	\$ 462,000	\$ 557,900	\$ 608,955	\$ 51,055
Interest	1,200	1,200	1,214	14
Total revenues	<u>463,200</u>	<u>559,100</u>	<u>610,169</u>	<u>51,069</u>
<i>Expenses</i>				
<i>Current:</i>				
Public works	<u>629,100</u>	<u>630,840</u>	<u>617,706</u>	<u>13,134</u>
Total expenditures	<u>629,100</u>	<u>630,840</u>	<u>617,706</u>	<u>13,134</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(165,900)</u>	<u>(71,740)</u>	<u>(7,537)</u>	<u>64,203</u>
Net change in fund balance	(165,900)	(71,740)	(7,537)	64,203
Fund balance, October 1, 2018	<u>188,589</u>	<u>75,907</u>	<u>14,397</u>	<u>(61,510)</u>
Fund balance, September 30, 2019	<u>\$ 22,689</u>	<u>\$ 4,167</u>	<u>\$ 6,860</u>	<u>\$ 2,693</u>

The accompanying notes to the Required Supplementary Information are an integral part of this schedule.

City of Diamondhead, Mississippi
Notes to the Required Supplementary Information (Unaudited)
For the Year Ended September 30, 2019

Note 1: Budgetary Information

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

The City's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

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

Note 2: Basis of Presentation

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

Note 3: Budget/GAAP Reconciliation

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

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

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

	<i>General Fund</i>	<i>Exit Lighting Fund</i>	<i>East Aloha Widening Fund</i>	<i>Montjoy Creek Fund</i>	<i>Solid Waste Fund</i>
Budget (cash basis)	\$ 634,741	\$ 63,209	\$ 30,408	\$ (3,604)	\$ (7,537)
Increase (decrease)					
Net adjustments for revenue accruals	(46,807)	2,878	298	2,134	(12,636)
Net adjustments for expenditure accruals	227,502	-	-	-	378
GAAP Basis	<u>\$ 815,436</u>	<u>\$ 66,087</u>	<u>\$ 30,706</u>	<u>\$ (1,470)</u>	<u>\$ (19,795)</u>

SUPPLEMENTARY INFORMATION

City of Diamondhead, Mississippi
Schedule of Surety Bonds
For the Year Ended September 30, 2019
 UNAUDITED

<u>Name</u>	<u>Title</u>	<u>Company</u>	<u>Coverage</u>
Thomas E. Schafer IV	Mayor	Travelers	100,000
Lindsay C L'Ecuyer	Councilman At-Large	Travelers	100,000
Nancy Depreo	Councilwoman, Ward 1	Western Surety	100,000
Alan Moran	Councilman, Ward 2	Travelers	100,000
Jamie Wetzel Morgan	Councilman, Ward 3	Travelers	100,000
Kodie J. Koenenn	Councilman, Ward 4	Travelers	100,000
Michael J. Reso	City Manager	Travelers	50,000
Jeannie Klein	City Clerk	Travelers	50,000
Tammy Garber	Deputy City Clerk	Travelers	50,000
Catherine Konkel	Treasurer	Travelers	50,000
Connie Scott	Accounts Payable Clerk	Travelers	50,000
Ronald Jones	Building Official	Travelers	50,000
Beau King	Deputy Building Official	Travelers	50,000
Tammy Braud	Building Clerk	Travelers	50,000
William Racz	Code Enforcement Officer	Travelers	50,000
Lolita McSwain	Court Clerk	Travelers	50,000
Lauren Prater	Deputy Court Clerk	Travelers	50,000
Ann Marie Comeaux	Receptionist	Travelers	50,000

SPECIAL REPORTS

**Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards***

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, each major fund and the aggregate remaining fund information of the City of Diamondhead, Mississippi, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated September 3, 2020.

Internal Control over Financial Reporting

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

We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2019-001 and 2019-002.

Compliance and Other Matters

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

We also noted a certain immaterial instance of noncompliance which we have reported to the management of the City of Diamondhead, Mississippi, in the Independent Accountant's Report on the Limited Internal Control and Compliance Review Management Report dated September 3, 2020, included within this document.

Purpose of 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. However, this report is a matter of public record and its distribution is not limited.

Necaise & Company PLLC

Necaise & Company, PLLC
Gulfport, Mississippi
September 3, 2020

Limited Internal Control and Compliance Review Management Report

Honorable Mayor and City Council
City of Diamondhead, Mississippi

In planning and performing our audit of the financial statements of the City of Diamondhead, Mississippi for the year ended September 30, 2019, we considered the City of Diamondhead, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to the City of Diamondhead, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated September 3, 2020, on the financial statements of the City of Diamondhead, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain immaterial instances of noncompliance with state laws and regulations that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Administration

1. Chart of Accounts

Repeat Finding: Yes

Criteria: Office of the State Auditor – Municipal Accounting Guide

Condition: The City's chart of accounts does not meet MS State Auditor guidelines.

Cause: The numbering of the chart of accounts is not correct.

Effect: Noncompliance with State Auditor Guidelines

Recommendation: The City should format its chart of accounts to be in compliance with the State's guidelines.

Views of Responsible Officials: This issue was resolved in fiscal year 2020.

The City of Diamondhead's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.

Necaise & Company PLLC

Necaise & Company PLLC
Gulfport, Mississippi
September 3, 2020

**Independent Auditor's Report on
Compliance with State Laws and Regulations**

Honorable Mayor and City Council
City of Diamondhead, Mississippi

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Diamondhead, Mississippi, as of and for the fiscal year ended September 30, 2019, which collectively comprise the City of Diamondhead's basic financial statements and have issued our report thereon dated September 3, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

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 procedures performed to test compliance with state legal compliance program our audit of the financial statements disclosed no instances of noncompliance.

This report is intended solely for the information and use of management, City Council, State Auditor's Office and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Necaise & Company PLLC

Necaise & Company PLLC
Gulfport, Mississippi
September 3, 2020

City of Diamondhead, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2019

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements:	
Governmental activities	Unmodified
General and other major funds	Unmodified
Aggregate remaining fund information	Unmodified
2. Material noncompliance relating to the financial statements?	No
3. Internal control over financial reporting:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes

Section 2: Financial Statement Findings

Administration

Significant Deficiency

2019-001 The Inventory Control System should be Accurate and Up-to-Date.

Repeat Finding: No

Criteria: Inventory should be properly accounted for to safeguard City assets and report accurate values.

Condition: We discovered several capital assets that were not tagged or entered in the inventory control system.

Cause: Internal controls are not sufficient to ensure asset additions are recorded correctly in the inventory System.

Effect: Capital assets were misstated and had to be adjusted.

Recommendation: We recommend the City review controls over capital assets and make improvements to ensure assets are recorded correctly.

Management's Response: *A listing of all items acquired with the purchase of the City Hall complex has been maintained. However, items excluded from the City's inventory were previously identified as surplus and not relevant to City use. Administration is securing the services of a professional auctioneer to assist with surplus sale activities.*

City of Diamondhead, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2019

Administration
Significant Deficiency

2019-002 Negative Fund Balances

Repeat Finding: No

Criteria: All funds should report a positive fund balance at fiscal year end.

Condition: We noted three funds had a negative fund balance as of September 30, 2019.

Cause: In two of the funds, expenses exceeded income. In another, year-end payable accruals caused the fund to have a negative fund balance.

Effect: Funds with a negative fund balance carry a liability balance that is greater than the assets.

Recommendation: We recommend the City review financial statements on a monthly basis to ensure all funds have a positive fund balance.

Management's Response: *The City will assure positive fund balances through monthly financial statement review and will take into consideration accrued expenses that could result in a negative fund balance.*