

**CITY OF DIAMONDHEAD, MISSISSIPPI**

Audited Financial Statements and Special Reports

For the Year Ended September 30, 2017

CITY OF DIAMONDHEAD, MISSISSIPPI  
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For the Year Ended September 30, 2017

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## INTRODUCTORY SECTION

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**ELECTED OFFICIALS**  
As of September 30, 2017



**Thomas E. Schafer, IV**  
Mayor



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



**Nancy Depreo**  
Councilwoman, Ward 1



**Alan Moran**  
Councilman, Ward 2



**Jamie Wetzel Morgan**  
Councilwoman, Ward 3

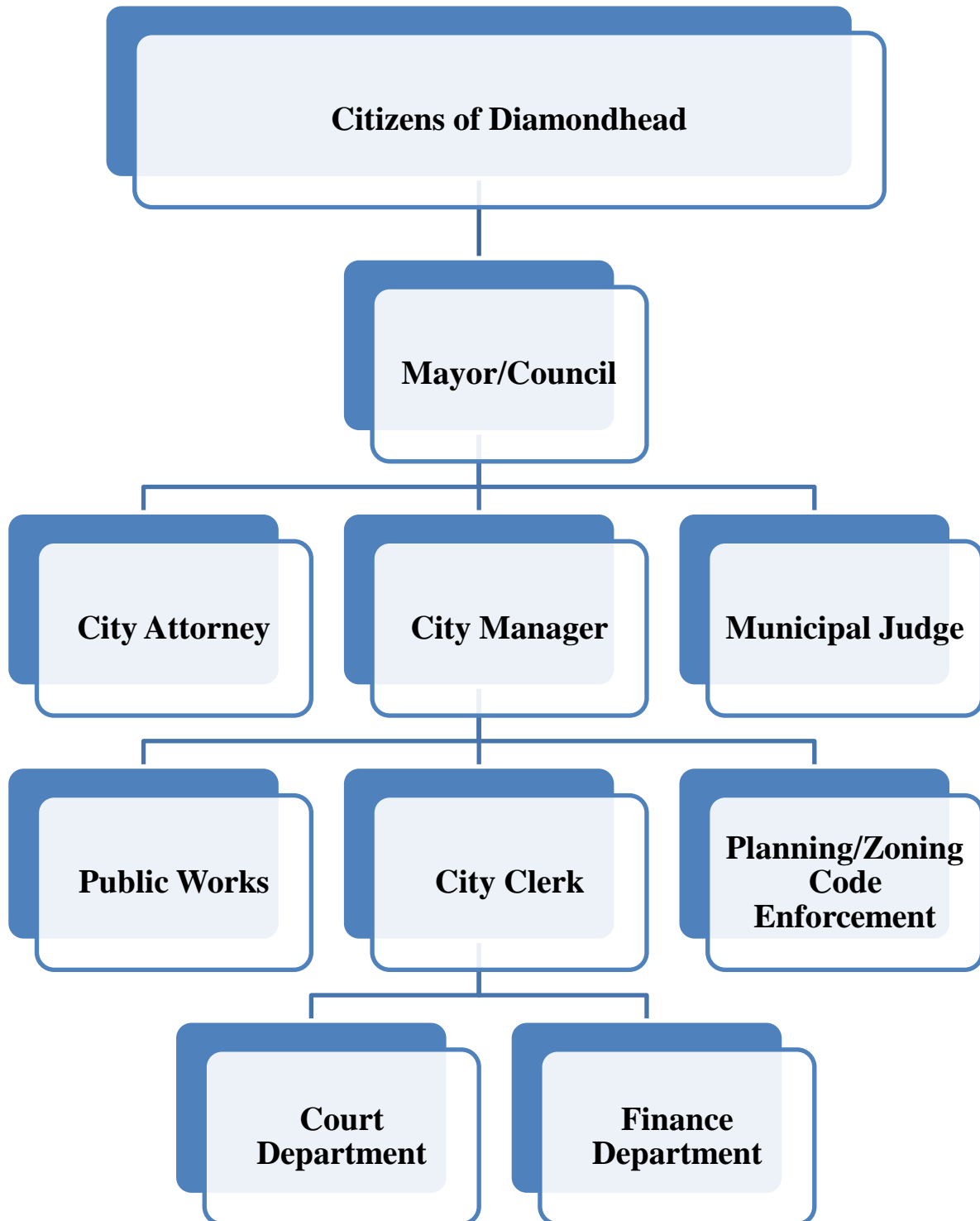


**Kodie Koenenn**  
Councilman, Ward 4



# City of Diamondhead

## ORGANIZATION CHART As of September 30, 2017



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FINANCIAL SECTION

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WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

*Certified Public Accountants*

HANCOCK BANK BUILDING

2510 - 14TH STREET

P.O. BOX 129

GULFPORT, MISSISSIPPI 39502

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**INDEPENDENT AUDITORS' REPORT**

August 23, 2018

Honorable Mayor and  
City Council of  
City of Diamondhead, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of City of Diamondhead, Mississippi, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

### ***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of City of Diamondhead, Mississippi, as of September 30, 2017, and the respective changes in financial position, 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, the Budgetary Comparison Schedule and corresponding notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

The State of Mississippi requires that municipalities submit a schedule of surety bonds maintained for city personnel in compliance with § 21-17-5 of Mississippi Code of 1972. This schedule has been presented on page 40. This schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of surety bonds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2018, on our consideration of City of Diamondhead, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Diamondhead, Mississippi's internal control over financial reporting and compliance.



**Other Reporting Required by *State of Mississippi***

In accordance with the State of Mississippi, we have also issued our report dated August 23, 2018, on our consideration of the City of Diamondhead's compliance with state laws and regulations. The purpose of that report is to describe the scope of our testing of internal controls over compliance with state laws and regulations and the result of that testing, and not to provide an opinion on internal controls or compliance. That report is an integral part of an audit performed in accordance with state guidelines in considering the City of Diamondhead's internal control over financial reporting and compliance.

*Walter Woodruff & Kemp*

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## MANAGEMENT DISCUSSION AND ANALYSIS

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## MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2017

This section of the City of Diamondhead, Mississippi's (the City) Annual Financial Report presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal year ended September 30, 2017 and 2016. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow.

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, the estimated population of City of Diamondhead as of July 1, 2017, is 8,100. The median household income is \$70,450 with over 97.6% of persons 25 years or older holding a high school degree or higher.

### Government-wide Financial Highlights

- The total assets of the City exceeded total liabilities for the fiscal year ended September 30, 2017 by \$65,371,961 (net position). Of this amount \$4,193,200 (unrestricted net position), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.
- General revenues amounted to of \$4,243,284 or 81% of total revenues. This amount decreased \$56,306 from 2016. Program revenues amounted to \$1,022,750 or 19% of total revenues, which decreased \$411,157 from 2016. This decrease was mostly due to a decrease in federal revenues received for capital projects.
- Capital assets, net of accumulated depreciation, decreased by \$806,696 during 2017. The decrease in governmental capital assets stems primarily from annual depreciation.
- As a result of the purchase of City Hall and additional equipment/vehicles, \$1,383,537 was the overall outstanding debt owed to Hancock Bank as of September 30, 2017.

### Fund Highlights

- *General Fund* – This fund is used for the general operations of the City. The General Fund had \$4,615,553 in revenues, \$4,753,646 in expenditures in the current year. A portion of the General Fund's fund balance, \$180,197, was reclassified to other funds from last year's audited balance to show proper distribution of fund balance to other governmental funds not reported in 2016.



## **Using this Annual Financial Report**

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

The Statement of Net Position and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

## **Reporting the City of Diamondhead as a Whole**

### *Statement of Net Position and the Statement of Activities*

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The Statement of Net Position and the Statement of Activities answer this question.

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

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

In the Statement of Net Position and the Statement of Activities, the City's activities are reported as governmental and business-type activities, which include all of the City's services including general government, police, public works, building/planning and zoning, community services, and solid waste. The City of Diamondhead has no component units.

Table 1 and Table 2 provide a summary of the City's net position and changes in net position for 2017 compared to 2016.



**TABLE 1**  
**Condensed Statement of Net Position**  
**September 30, 2017 and 2016**

	Governmental Activities		Change
	2017	2016*	
<b>Assets</b>			
Current assets*	\$ 7,847,076	7,711,570	135,506
Capital assets	62,783,387	63,590,083	(806,696)
<b>Total Assets</b>	<b>70,630,463</b>	<b>71,301,653</b>	<b>(671,190)</b>
<b>Liabilities</b>			
Current liabilities	284,334	498,528	(214,194)
Non-current liabilities	1,418,269	1,131,585	286,684
<b>Total Liabilities</b>	<b>1,702,603</b>	<b>1,630,113</b>	<b>72,490</b>
Deferred Inflows*	3,195,899	2,946,021	249,878
<b>Net Position</b>			
Investment in capital assets, net of related debt	61,399,850	62,242,364	(842,514)
Restricted net assets	138,911	85,347	53,564
Unrestricted	4,193,200	4,397,808	(204,608)
<b>Total Net Position</b>	<b>\$ 65,731,961</b>	<b>66,725,519</b>	<b>(993,558)</b>

\*2016 amounts have been adjusted to show GASB 63 accrual of property taxes not shown on prior audit report for a more comparable reflection of change from 2016 to 2017. This Prior Period Adjustment did not effect net position.

**TABLE 2**  
**Condensed Statement of Activities**  
**September 30, 2017 and 2016**

	Governmental Activities		Change
	2017	2016*	
<b>Revenues:</b>			
Program revenues	\$ 1,022,750	1,433,907	(411,157)
General revenues	4,243,284	4,299,590	(56,306)
<b>Total revenues</b>	<b>5,266,034</b>	<b>5,733,497</b>	<b>(467,463)</b>
<b>Expenses:</b>			
General government*	1,395,957	1,477,520	(81,563)
Public safety	867,809	705,605	162,204
Public works*	3,322,793	3,268,565	54,228
Solid waste	401,478	368,521	32,957
Building/Planning & zoning	164,058	141,645	22,413
Economic development	17,800	100,342	(82,542)
Interest on long-term debt	36,713	38,791	(2,078)
<b>Total expenses</b>	<b>6,206,608</b>	<b>6,100,989</b>	<b>105,619</b>
Increase (Decrease) in net assets	(940,574)	(367,492)	(573,082)
Net Position - beginning, restated	66,672,535	67,093,011	(420,476)
<b>Net Position - ending</b>	<b>\$ 65,731,961</b>	<b>66,725,519</b>	<b>(993,558)</b>

\*2016 amounts have been reclassified to show GASB 34 presentation by function.



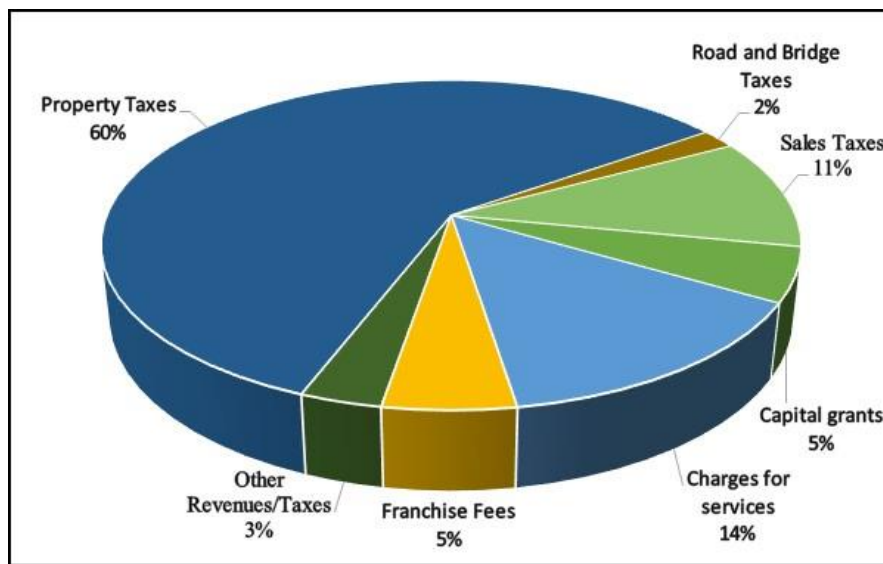
## Governmental Activities

Total net position decreased by 993,558 (which includes a \$52,984 prior period adjustment) as a result primarily due to a decrease in grant revenues.

Under the accrual basis of accounting, general revenues amounted to \$4,243,284 or 81% of total revenues. This amount increased \$56,306 from 2016. Program revenues amounted to \$1,022,750 or 19% of total revenues, which decreased \$411,157 from 2016.

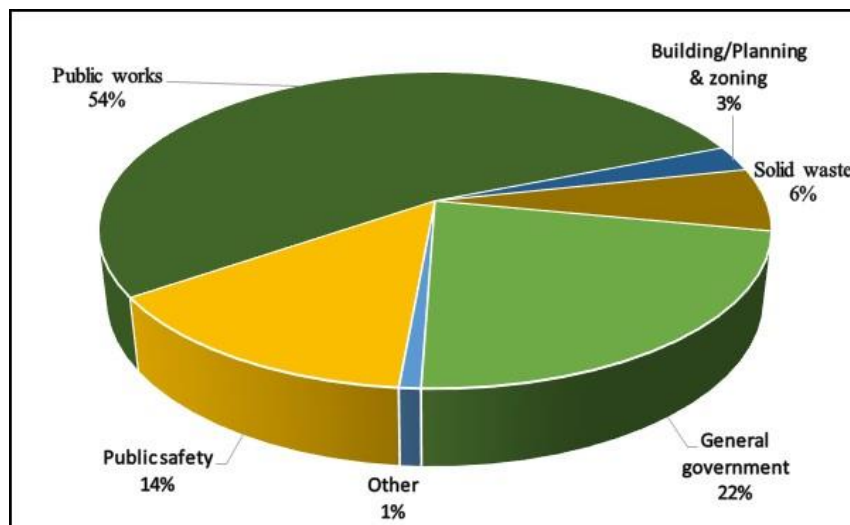
Several revenue sources fund our governmental activities. The following chart shows the City's total general revenues and program income that is used to offset governmental expenses.

**Chart 1 – Governmental Revenue Sources**



Major governmental expense activities are shown in the following chart.

**Chart 2 – Governmental Activities**





## **Reporting the City of Diamondhead's Most Significant Funds**

### ***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 many funds, which account for the multitude of services provided to the City's residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Diamondhead, the City's major funds are the General and \$7M Capital Improvement Bond funds.

### ***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 by the city to track payroll expenditures and property tax receipts and disbursements.

## **The City's Funds**

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

## **General Fund Budgeting Highlights**

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

During the course of 2017, the City amended its general fund budget. All recommendations for a budget change come from the City Clerk to the Council for approval. State law does not allow budget changes that modify functional levels of budget amounts within a department without council approval. With the General Fund supporting many of our major activities, such as our 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

Table 3 shows the Changes in Capital Assets for the years ended September 30, 2017 and 2016.

**TABLE 3**  
**Schedule of Capital Assets (Net of Accumulated Depreciation)**  
**September 30, 2017 and 2016**

	Governmental Activities		Change
	2017	2016	
Land	\$ 7,797,676	7,768,527	29,149
Construction in progress	411,738	262,245	149,493
Buildings	48,697	47,667	1,030
Infrastructure	51,423,257	52,408,269	(985,012)
Machinery and equipment	695,505	857,371	(161,866)
Assets under capital leases	2,406,514	2,246,004	160,510
Total	<u>\$ 62,783,387</u>	<u>63,590,083</u>	<u>(806,696)</u>

The City had \$1,691,556 in capital outlay during 2017 along with \$2,442,458 depreciation expense. The City had a \$411,738 of on-going construction as of September 30, 2017 with \$511,261 remaining contractual commitments associated with these projects.

## General Long-term Obligations

At September 30, 2017, the City had \$1,418,269 outstanding debt obligations, which included \$34,732 of compensated absences payable.

**TABLE 4**  
**Schedule of Long-term Debt**  
**September 30, 2017 and 2016**

	Governmental Activities		Change
	2017	2016	
Capital Leases	\$ 1,383,537	1,258,613	124,924
Compensated Absences	34,732	19,530	15,202
Total	<u>\$ 1,418,269</u>	<u>1,278,143</u>	<u>140,126</u>

In March 2017, the City borrowed \$311,567 in the form of a capital lease from Hancock Bank and made an early payoff on a capital lease owed to Hancock Bank that originally matured on April 1, 2018 in the amount of \$113,747. Additional principal payments on Capital Lease obligations totaled \$72,896.

The compensated absences liability identified above refers to the current balance of what has been earned as a termination benefit that will be paid over time as people leave or retire. This liability refers to vacation pay for employees of the city. See Note 1 for more details.

## Contact the City's Financial Management

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

Michael J. Reso, City Manager  
City of Diamondhead, Mississippi  
3330 Highway 90  
Diamondhead, MS 39553  
(228) 497-8000



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## FINANCIAL STATEMENTS

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**City of Diamondhead, Mississippi**  
**Statement of Financial Position**  
September 30, 2017

	<u>Governmental</u>
<b>Assets</b>	
Current assets	
Cash	\$ 3,996,138
Property tax receivables	3,413,598
Other taxes receivables	76,533
Fines receivable (net of allowance)	179,307
Intergovernmental receivables	42,589
Prepaid insurance	53,564
Restricted current assets - cash	<u>85,347</u>
Total Current Assets	<u>7,847,076</u>
Capital assets	
Nondepreciable capital assets	
Land and construction in progress	8,209,414
Other capital assets (net of accumulated depreciation):	
Buildings and improvements	48,697
Infrastructure	51,423,257
Machinery and equipment	695,505
Equipment under capital leases	<u>2,406,514</u>
Total Capital Assets	<u>62,783,387</u>
Total Assets	<u>\$ 70,630,463</u>
<b>Liabilities</b>	
Current liabilities:	
Claims payable	\$ 208,665
Accrued interest payable	10,192
Grant revenue not earned	42,589
Intra-agency payables	22,888
Noncurrent Liabilities:	
Due within one year	
Capital debt	135,030
Noncapital debt	21,256
Due in more than one year	
Capital debt	1,248,507
Noncapital debt	<u>13,476</u>
Total Liabilities	<u>\$ 1,702,603</u>
<b>Deferred Inflows of Resources</b>	
Property tax for future reporting period	\$ <u>3,195,899</u>
Total Deferred Inflows of Resources	<u>\$ 3,195,899</u>
<b>Net Position</b>	
Net investment in capital assets	\$ 61,399,850
Restricted Net Position:	
Non-expendable	53,564
Expendable:	
Restricted for capital projects	63,847
Restricted for public safety	21,500
Unrestricted	<u>4,193,200</u>
Total Net Position	<u>\$ 65,731,961</u>

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

**City of Diamondhead, Mississippi**  
Statement of Activities  
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Capital Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental Activities:				\$
General government	\$ 1,395,957	544		(1,395,413)
Public safety	867,809	238,486		(629,323)
Public works	3,322,793		279,590	(3,043,203)
Solid waste	401,478	409,395		7,917
Building/Planning & zoning	164,058	94,735		(69,323)
Economic development	17,800			(17,800)
Interest on long-term debt	36,713			(36,713)
Total governmental activities	<u>6,206,608</u>	<u>743,160</u>	<u>279,590</u>	<u>(5,183,858)</u>
General Revenues:				
Taxes:				
				3,125,564
Property taxes, general				573,452
General sales taxes				101,391
Road and bridge privilege taxes				273,746
Franchise taxes				114,434
Grants/Contributions not restricted to a special purpose				26,622
Unrestricted investment earnings				28,075
Miscellaneous				<u>4,243,284</u>
Total general revenues				
				<u>(940,574)</u>
Changes in net position				
				66,725,519
Net position - beginning				(52,984)
Prior period adjustment				<u>66,672,535</u>
				\$ <u>65,731,961</u>
Net position - ending				

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

**City of Diamondhead, Mississippi**  
**Balance Sheet – Governmental Funds**  
**September 30, 2017**

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash	\$ 3,833,673	162,465	3,996,138
Receivables:			
Property tax	3,413,598	-	3,413,598
Franchise and other taxes	76,533	-	76,533
Intergovernmental	-	42,589	42,589
Court fines & fees	179,307	-	179,307
Prepaid items	53,564	-	53,564
Restricted assets - Cash	-	85,347	85,347
Total Assets	<u>\$ 7,556,675</u>	<u>290,401</u>	<u>7,847,076</u>
<b>LIABILITIES</b>			
Liabilities:			
Claims payable	\$ 170,218	38,447	208,665
Due to other funds	22,888	-	22,888
Grant revenue unearned	-	42,589	42,589
Compensated absences, current	6,533	-	6,533
Total Liabilities	<u>199,639</u>	<u>81,036</u>	<u>280,675</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes for future reporting period	3,195,899	-	3,195,899
Unavailable revenue - fines	179,307	-	179,307
Total Deferred Inflows of Resources	<u>3,375,206</u>	<u>-</u>	<u>3,375,206</u>
<b>FUND BALANCES</b>			
Non-spendable			
Prepaid items	53,564	-	53,564
Committed			
Capital projects	511,261	-	511,261
Restricted:			
Capital projects	-	63,847	63,847
Public safety	-	21,500	21,500
Unassigned	3,417,005	124,018	3,541,023
Total Fund Balances	<u>3,981,830</u>	<u>209,365</u>	<u>4,191,195</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 7,556,675</u>	<u>290,401</u>	<u>7,847,076</u>

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

**City of Diamondhead, Mississippi**  
 Reconciliation of Governmental Funds Balance Sheet  
 to the Statement of Net Position  
 September 30, 2017

<b>Total governmental funds balance</b>		<b>\$ 4,191,195</b>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds:		
Governmental capital assets	\$ 73,623,584	
Less: accumulated depreciation	<u>(10,840,197)</u>	62,783,387
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Capital leases payable	\$ (1,383,537)	
Non-current compensated absences	<u>(28,199)</u>	(1,411,736)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		
Court fines receivable		179,307
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.		
		<u>(10,192)</u>
Net position of governmental activities		<b><u><u>\$ 65,731,961</u></u></b>

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

**City of Diamondhead, Mississippi**  
Statement of Revenues, Expenditures and  
Changes in Fund Balance – Governmental Funds  
For the Fiscal Year Ended September 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Property taxes	\$ 3,125,564	-	3,125,564
General sales taxes	573,452	-	573,452
Franchise fees	273,746	-	273,746
Licenses and permit fees	94,735	-	94,735
Intergovernmental	401,039	240,028	641,067
Charges for services	544	409,395	409,939
Fines and forfeitures	109,594	-	109,594
Investment earnings	26,622	-	26,622
Miscellaneous	10,257	-	10,257
<b>Total Revenues</b>	<b>4,615,553</b>	<b>649,423</b>	<b>5,264,976</b>
<b>Expenditures:</b>			
General government	1,312,340	12,281	1,324,621
Public safety	739,534	-	739,534
Public works	1,065,495	-	1,065,495
Solid waste	-	401,478	401,478
Building/Planning & zoning	163,031	-	163,031
Economic development	17,800	-	17,800
Capital outlay	1,232,692	458,864	1,691,556
<b>Debt service:</b>			
Principal	186,643	-	186,643
Interest and other fiscal charges	36,111	-	36,111
<b>Total Expenditures</b>	<b>4,753,646</b>	<b>872,623</b>	<b>5,626,269</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(138,093)</b>	<b>(223,200)</b>	<b>(361,293)</b>
<b>Other Financing Sources (Uses):</b>			
Proceeds from capital leases	311,567	-	311,567
Sale of capital assets	1,201	-	1,201
Insurance proceeds	16,617	-	16,617
Transfers in	-	252,368	252,368
Transfers out	(252,368)	-	(252,368)
<b>Total Other Financing Sources (Uses)</b>	<b>77,017</b>	<b>252,368</b>	<b>329,385</b>
<b>Net change in fund balances</b>	<b>(61,076)</b>	<b>29,168</b>	<b>(31,908)</b>
Fund balances - beginning	4,213,513	-	4,213,513
Fund reclassification	(180,197)	180,197	-
Prior period adjustment	9,590	-	9,590
Fund balance - beginning, restated	4,042,906	180,197	4,223,103
<b>Fund balances - ending</b>	<b>\$ 3,981,830</b>	<b>209,365</b>	<b>4,191,195</b>

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

**City of Diamondhead, Mississippi**  
**Reconciliation of the Governmental Funds**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance to the Statement of Activities**  
**For the Fiscal Year Ended September 30, 2017**

**Net Change in Fund Balances - total governmental funds** **\$ (31,908)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net position

differs from the change in fund balance by the amount of depreciation in excess of capital outlays as follows:

Capital outlay	\$ 1,691,556	
Depreciation	<u>(2,442,458)</u>	(750,902)

In the Statement of Activities, only gains 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 net (gain/ loss) on disposed assets (2,810)

Fine and grant revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting. (16,760)

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 that debt proceeds exceed debt repayments as follows:

Debt retirement	\$ 186,642	
Debt issuance	<u>(311,567)</u>	(124,925)

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:

Additional long-term compensated absences		(12,667)
Accrued interest on long-term debt		<u>(602)</u>

**Change in net position of governmental activities** **\$ (940,574)**

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

**City of Diamondhead, Mississippi**  
 Combining Statement of Assets  
 and Liabilities – Agency Fund  
 September 30, 2017

		<u>Agency Clearing Accounts</u>
Assets	\$	
Cash		1,865
Intergovernmental receivable		<u>22,888</u>
Total Assets		<u><u>24,753</u></u>
 Liabilities		
Accrued liabilities		<u>24,753</u>
Total Liabilities		<u><u>24,753</u></u>
 Net Position		
Held in trust for benefits and other purposes	\$	<u><u>-</u></u>

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



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NOTES TO THE FINANCIAL STATEMENTS

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## City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2017

### Note 1 - Summary of Significant Accounting Policies

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

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

#### A. Financial Reporting Entity

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the City's governing 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  
Diamondhead Property Owner's Association

These potential component units have separate elected and/or appointed boards and provide services to residents through interlocal agreement 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

September 30, 2017

**Note 1 - Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation.**

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

*Government-wide Financial Statements:*

The Statement of Net Position and Statement of Activities display information about the City as a whole. The statements include all non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements.

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

The Statement of Net 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 clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. 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 governmental function is self-financing or draws from the general revenues of the City.

*Fund Financial Statements:*

Fund financial statements of the City are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into governmental and fiduciary. Major individual Governmental Funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column as Other Governmental Funds. The City did not report any major governmental funds for fiscal year ended September 30, 2017.

**C. 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 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.

**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 1 - Summary of Significant Accounting Policies (continued)**

C. Measurement Focus and Basis of Accounting – Continued

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

The City reports the following major Governmental Funds:

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

Additionally, the City reports the following fund types:

**GOVERNMENTAL FUND TYPES**

Special Revenue Funds – These funds are used to account for and report the proceeds of specific revenue sources 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 expenditure for capital outlays, including acquisition or construction of capital facilities and other assets.

**FIDUCIARY FUNDS**

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

D. Account Classifications

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

E. Deposits and Investments

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

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.

**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 1 - Summary of Significant Accounting Policies (continued)**

F. Receivables

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2017, are recorded as prepaid items. In governmental funds, reported prepaid items are equally offset by nonspendable fund balance amounts, which indicate they do not constitute "available spendable resources" even though they are a component of net current assets. The net change in nonspendable fund balances is not presented because the combined statement of revenues, expenditures, and changes in fund balances reflects the changes in total fund balances rather than just the spendable and nonspendable fund balances.

H. Restricted Assets

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

I. Inter-Fund/Intra-Agency 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."

Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between fiduciary funds and the government-wide activities of the government are reported as Intra-entity balances and included in intergovernmental receivables on the Statement of Net Position.

J. Capital Assets

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

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

**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 1 - Summary of Significant Accounting Policies (continued)**

**J. 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, estimated useful lives and salvage value percentage of cost:

	Capitalization Threshold	Estimated Useful Life	Salvage Value (% of Cost)
Land	-	N/A	N/A
Infrastructure	-	20 years	30%
Buildings	10,000	40 years	20%
Improvements	5,000	20 years	20%
Mobile equipment	1,000	5-10 years	10%
Furniture & equipment	1,000	5-10 years	10%
Property under capital leases	*	*	*

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

**K. Long-term Liabilities**

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

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.

**L. 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 and so will not be recognized as an outflow of resources expenditure 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 and so will not be recognized as an inflow of resources until that time.

*Property tax for future reporting period/unavailable revenue – property taxes* – Deferred inflows of resources should be reported when resources associated with imposed non-exchange 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.

**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 1 - Summary of Significant Accounting Policies (continued)**

M. Long-term Liabilities

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

N. Compensated Absences

The City's policy on vacation leave allows employees to accrue vacation time based on a certain accrual rate per pay period once that employee has had one year of continuous service for the City. There are no restrictions on when the employees are allowed to take their vacation time. Retiring and voluntarily terminating employees can be paid for up to 15 days of unused vacation. It is the City's policy that all unused sick leave is forfeited upon termination, retirement, or layoff. There is no liability for unpaid accumulated sick leave since sick pay is not paid upon termination of employment. 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, 2017. The resulting liability is then increased to include social security that the City is required to pay upon liquidation of the liability.

O. Fund Balance Policies

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

*Non-spendable fund balance* includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

*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

*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

September 30, 2017

**Note 1 - Summary of Significant Accounting Policies (continued)**

O. Fund Balance Policies – Continued

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

P. Net Position

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

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

*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 “invested in capital assets, net of related debt.”

Q. 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.

R. 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.



**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 1 - Summary of Significant Accounting Policies (continued)**

R. Property Tax Revenues – Continued

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.

S. 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.

T. Change in Accounting Standard

The City implemented the following standards issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement No. 77, Tax Abatement Disclosures and GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73. The provisions of these standards have been incorporated into the financial statements and notes.

**Note 2 – Cash**

The carrying amount of the city's total deposits with financial institutions at September 30, 2017, was \$4,083,350 and the bank balance was \$4,122,016. Of this amount \$63,847 is restricted for capital projects and \$21,500 for fire protection millage assessments. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

A summary of cash at September 30, 2017 is as follows:

	<b>Deposits with Financial Institutions</b>		<b>Cash on Hand</b>	<b>Total</b>
	<b>Unrestricted</b>	<b>Restricted</b>		
<b>Governmental-type activities</b>				
General Fund	\$ 3,832,773	-	900	3,833,673
Other governmental fund	162,465	85,347	-	247,812
Total governmental activities	3,995,238	85,347	900	4,081,485
<b>Agency Fund</b>	1,865	-	-	1,865
Total cash	\$ 3,997,103	85,347	900	4,083,350

**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 2 – Cash (Continued)**

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. 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 – Receivables**

Receivables in the governmental activities at September 30, 2017, consisted of the following:

Governmental activities		
Taxes receivable:		
Property taxes		
Current		\$ 217,699
For future reporting period		3,195,899
Total taxes receivable		<u>3,413,598</u>
Intergovernmental receivable:		
Franchise and other taxes		76,533
Federal and state grants		<u>42,589</u>
Total intergovernmental		<u>119,122</u>
Court fines receivable		517,365
Less: amounts due for state assessments		(146,007)
Less: allowance for doubtful accounts		<u>(338,058)</u>
Total court fines receivable, net		<u>179,307</u>
Total receivable - governmental activities		<u>\$ 3,712,027</u>

Court fines receivables are shown net of an allowance for bad debt in the amount of \$388,058 as of September 30, 2017. In addition, the City does not recognize amounts that have been assessed as fines the amounts that are due to the State of Mississippi until collected and payment is submitted.

**Note 4 – Inter-Fund/Inter-Agency Transactions and Balances**

Government-wide Financial Statements

Intra-entity Balances

At September 30, 2017 the City had the following intra-agency balances:

	Due from other	Due to other	
	<u>Government Agencies</u>	<u>Government Agencies</u>	<u>Amount</u>
Fiduciary Agency Funds		Governmental Activities	\$ 22,888
			<u>\$ 22,888</u>

These amounts represent cash transfers owed to the agency clearing funds to allow for payment of accrued liabilities.

**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 4 – Inter-Fund/Inter-Agency Transactions and Balances (Continued)**

Fund Financial Statements

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Agency Fund	General Fund	\$ 22,888
Total		<u>\$ 22,888</u>

B. Transfers In/Out:

Transfers were made in the course of the year for loans to various funds. Other transfers were made to reimburse the various funds for expenditures made on the behalf of other fund purposes.

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ 252,368
Total		<u>\$ 252,368</u>

**Note 5 – Capital Assets**

The following is a summary of governmental capital assets activity for the year ended September 30, 2017:

	<u>Balance 9/30/2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Adjustments/ Transfers</u>	<u>Balance 9/30/2017</u>
Capital assets not being depreciated:					
Land	\$ 7,768,527	-	-	29,149	7,797,676
Construction in progress	262,245	1,222,624		(1,073,131)	411,738
Total capital assets not being depreciated	<u>8,030,772</u>	<u>1,222,624</u>	<u>-</u>	<u>(1,043,982)</u>	<u>8,209,414</u>
Capital assets being depreciated:					
Buildings & improvements	85,418	-	-	(27,179)	58,239
Infrastructure	60,283,583	-		1,097,199	61,380,782
Machinery & equipment	1,110,391	152,879	(8,477)	(28,255)	1,226,538
Equipment under capital leases	2,483,325	316,053	-	(50,767)	2,748,611
Total capital assets being depreciated	<u>63,962,717</u>	<u>468,932</u>	<u>(8,477)</u>	<u>990,998</u>	<u>65,414,170</u>
Less accumulated depreciation for:					
Buildings & improvements	37,751	2,509	-	(30,718)	9,542
Infrastructure	7,875,314	2,141,411	-	(59,200)	9,957,525
Machinery & equipment	253,020	181,599	(5,667)	102,081	531,033
Equipment under capital leases	237,321	116,939	-	(12,163)	342,097
Total accumulated depreciation	<u>8,403,406</u>	<u>2,442,458</u>	<u>(5,667)</u>	<u>-</u>	<u>10,840,197</u>
Total capital assets being depreciated, net	<u>55,559,311</u>	<u>(1,973,526)</u>	<u>(2,810)</u>	<u>990,998</u>	<u>54,573,973</u>
Total capital assets	<u>\$ 63,590,083</u>	<u>(750,902)</u>	<u>(2,810)</u>	<u>(52,984)</u>	<u>62,783,387</u>

**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 5 – Capital Assets (Continued)**

Depreciation expense was charged to the following governmental functions:

General Government	\$ 68,129
Public Safety	128,275
Public Works	<u>2,246,054</u>
	<u>\$ 2,442,458</u>

Assets under capital leases include buildings, grounds, and equipment that were acquired through capital leases financing with a local financial institution (see Note 7 for additional information). As of September 30, 2017, these capitalized assets and the related accumulated depreciation are as follows:

<u>Asset</u>	<u>Capitalized Amount</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>
Building and grounds - City Hall	\$ 2,172,204	103,173	49,532
Equipment	576,407	238,924	67,407
	<u>\$ 2,748,611</u>	<u>342,097</u>	<u>116,939</u>

**Note 6 –Deferred Inflows of Resources**

The Statement of Net Position reports 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 periods and so will not be recognized as an inflow of resources (revenue) until that time.

Property tax for future reporting period/unavailable revenue – property taxes

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. Real property taxes become a lien on January 1 personal property taxes become a lien on March 1 of the current calendar year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year.

Therefore, a deferred inflow of \$3,195,899 has been recorded as property tax for future reporting period in the Statement of Net Position and Governmental Funds Balance Sheet.

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.

Court fines receivables are recorded as deferred inflow of sources in the fund financial statements due to the funds using modified accrual basis. However, revenues received during the year are recorded in the government-wide financial statements on the full-accrual basis of accounting. Miss. Code Ann. (1972) does not allow for write-off of debt owed to municipalities. The amount represented on the financial statements is conclusive of all bad debts owed by citizens to the municipal courts since the City started providing court services. Court fines receivable at September 30, 2017, were \$517,365 of which an allowance of \$338,058 has been determined as uncollectible. Included in the fines receivable is \$146,007 of state assessments that the City will not recognize until the fine is paid and the state assessment is submitted to the State.

**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 7 – Long-term Debt**

Transactions for the year ended September 30, 2017 are summarized as follows:

	Balance 10/1/2016	Additions	Retirements	Balance 9/30/2017	Due Within one Year
Capital Leases	\$ 1,258,613	311,567	(186,643)	1,383,537	135,030
Compensated Absences	19,530	42,650	(27,448)	34,732	21,256
	<u>\$ 1,278,143</u>	<u>354,217</u>	<u>(214,091)</u>	<u>1,418,269</u>	<u>156,286</u>

**A. Capital Leases**

At September 30, 2017, the City had the following outstanding capital leases:

	Original Amount	Balance September 30, 2017
Capital lease payable to Hancock Bank, dated July 22, 2014, secured by building and land, bearing an interest rate of 3.09%, payable in annual installments of \$108,271, which includes both principal and interest, beginning on July 1, 2015 through July 1, 2029.	\$ 1,144,865	1,071,970
Capital lease payable to Hancock Bank, dated April 25, 2017, secured by building and land, bearing an interest rate of 1.18%, payable in annual installments of \$66,082, which includes both principal and interest, beginning on April 25, 2018 through July 1, 2022.	<u>311,567</u>	<u>311,567</u>
Total capital leases	<u>\$ 1,456,432</u>	<u>1,383,537</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of September 30, 2017, were as follows:

<u>Year Ended September 30,</u>	<u>Total</u>
2018	\$ 174,354
2019	174,354
2020	174,354
2021	174,354
2022	174,354
2023-2027	541,358
2028-2029	<u>216,543</u>
Total minimum lease payments	\$ 1,629,671
Less amount representing interest	<u>(246,134)</u>
Present value of minimum payments	<u>\$ 1,383,537</u>

**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 7 – Long-term Debt (Continued)**

A. Capital Leases – Continued

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

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, 2016, 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.

B. Legal Debt Margin

The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2017, all of the City's debt was exempt from legal debt margin calculations per state statute.

C. Interest Expense

For the year ended September 30, 2017, \$36,111 in interest was expensed and is included in the statement of activities under interest expense.

**Note 8 – Property and Sales Tax Revenue**

A. Property Tax Revenues

The City levies a tax on real and personal property based on the assessed value of property as compiled by the information extracted from the City assessment tax rolls. The taxes on real property attach as an enforceable lien on the property as of January 1. Taxes on real and personal property are levied by the City Council at the first regular meeting in September.

In accordance with the Mississippi Code of 1972, as amended, the City Council may levy taxes in any amount for general revenue purposes and general improvements. However, taxes collected for the current year are limited to an increase of not more than 10% over receipts for any one of the preceding ten years or a minimum of 20 mills. For purposes of the computation, taxes collected in the current year resulting from property added to the tax assessment roll are excluded from the computation.

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt but exclusive of school bond and interest for the year ended September 30, 2017 was 34 mills or \$34.00 per \$1,000 of assessed valuation.

**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 8 – Property and Sales Tax Revenue (Continued)**

B. Property Tax Revenues – Continued

Property taxes at the fund level are recorded as receivables and deferred inflow of resources at the time the taxes are levied. Revenues are recognized as the related ad valorem taxes are collected including those collected 60 days after year-end. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with GAAP have been recognized as revenue.

C. General Sales Tax Revenues

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Diamondhead) back to the City monthly. General sales tax revenue reported in the General Fund was \$573,452.

**Note 9 – Deferred Compensation Plan**

A. 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 Code Section 457 and enacted by the Mississippi State Legislature. The Mississippi Deferred Compensation Plan is a supplemental retirement savings plan. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

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

B. 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 \$17,653 to the deferred compensation plan for the fiscal year ended September 30, 2017.

**Note 10 – Commitments and Contingencies**

A. Risk Management

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

**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 10 – Commitments and Contingencies (Continued)**

**A. Risk Management**

Workers' Compensation – 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, 2017, to January 1, 2018. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

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

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.

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

The City has been named as defendant in various lawsuits seeking unspecified damages for incidents. The City maintains liability insurance coverage that it believes would cover any judgment 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.

**B. Construction Contract Commitments**

Construction Commitments – The following is construction contracts that are listed as construction in progress in Note 5 and the remaining balance of the commitments as of September 30, 2017:

<u>Project</u>	<u>Money Spent to Date</u>	<u>Remaining Commitment</u>
Drainage	\$ 285,892	38,406
Streets	44,712	125,460
Kayak Launch	81,134	347,395
Total	<u>\$ 411,738</u>	<u>511,261</u>



**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 10 – Commitments and Contingencies (Continued)**

C. Operating Lease Commitments

Non-cancellable operating leases at September 30, 2017 are as follows:

- In July 2014, the City entered into a lease agreement for a copier located at the Police Department. The lease agreement is for sixty (60) months with payments of \$84 per month.
- In August 2014, the City entered into a lease agreement for a copier located at the Purchasing Department Office. The lease agreement is for sixty (60) months with payments of \$84 per month.
- 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. The lease agreement is for sixty (60) months with payments of \$82 per month.

Total operating lease payments made during the year ended September 30, 2017 totaled \$5,022.

The future noncancelable lease obligation of these leases at September 30, 2017 is as follows:

<u>Year Ended September 30,</u>	<u>Total</u>
2018	\$ 5,244
2019	4,824
2020	3,228
2021	3,228
2022	1,322
Total	<u>\$ 17,846</u>

D. 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 2017 and expires on December 31, 2019. This agreement is cancellable upon 60 days written notice by mutual agreement between parties. For the fiscal year ended September 30, 2017, the City paid \$634,408 to the County for services received under the terms of this agreement, which is included in public safety expenses on the statement on activities.

Taxes Collection Services

In February 2012, the City entered into a two-year interlocal agreement with Hancock County, Mississippi (County), whereby the County Tax Collector will provide real, personal, and auto ad valorem property taxes 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. For the fiscal year ended September 30, 2017, the City paid \$40,000 to the County Tax Collector for services received under the terms of this agreement, which is included in general government expenses on the statement of activities.

**City of Diamondhead, Mississippi**

Notes to the Financial Statements

September 30, 2017

**Note 10 – Commitments and Contingencies (Continued)**

D. Interlocal Agreements and Service Contracts – Continued

Delinquent Taxes Collection Services

In February 2012, the City entered into a two-year interlocal agreement with Hancock County, Mississippi (County), whereby the County Chancery Clerk will provide delinquent tax redemption payments services for the City. The terms of the agreement include automatic annual renewal. The agreement can be terminated by either party by written notification not less than nine months in advance of annual renewal date. Under the terms of the agreement, the County Chancery Clerk will be paid \$10 per parcel for cost incurred. For the fiscal year ended September 30, 2017, the City paid \$2,130 to the County Chancery Clerk for services received under the terms of this agreement, which is included in general government expenses on the statement of activities.

Solid Waste Fees Collections Services

In November 2013, the City entered into a two-year interlocal agreement with Hancock County, Mississippi (County), whereby the County Tax Collector will provide solid waste fees collections for the City. Under the terms of the agreement, services commenced on January 1, 2014, and automatically renews annually. The agreement can be terminated by either party. For the fiscal year ended September 30, 2017, the City paid \$12,282 to the County Tax Collector for services received under the terms of this agreement, which is included in solid waste expenses on the statement of activities.

Solid Waste Collections

Currently, the City's solid waste collections are provided through a contract between Hancock County Regional Solid Waste Authority (Authority) and Waste Management of Mississippi, Inc. (Contractor). Under the terms of the contract, the Contractor will collect, haul, and dispose of solid waste generated by the City's residents. The Contractor submits monthly invoices to the Authority for these services. The Authority bills the City for its respective portion of the Contractor's invoices. For the fiscal year ended September 30, 2017, the City paid \$401,478 to the Authority for solid waste collections services, which is included in solid waste expenses on the statement of activities.

**Note 11 – 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

September 30, 2017

**Note 12 – Prior Period Adjustments**

A summary of the significant net position/fund balance adjustment(s) is as follows:

Statement of Activities – Governmental Activities.

<u>Explanation</u>	<u>Amount</u>
Adjustments to Capital Assets (see Note )	\$ <u>(52,894)</u>
Total prior period adjustment	\$ <u>(52,894)</u>

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

<u>Explanation</u>	<u>Amount</u>
Accrued interest recognized in the fund statements in error in prior year	\$ <u>9,590</u>
Total prior period adjustment	\$ <u>9,590</u>

**Note 13 – Subsequent Events**

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City evaluated the activity of the City through August 23, 2018, (the date the financial statements were available to be issued) and determined that the following significant subsequent events have occurred requiring disclosure in the notes to the financial statement.

In May of 2018 the city reached an agreement with the Mississippi Department of Transportation for grant funds regarding the lighting of Yacht Club Drive/Gex Drive I-10 Interchange. Memorandum of Understanding with MDOT. The total project costs \$629,694. Federal funds in the amount of \$538,182 will be applied toward this project with an approved special match credit amount of \$73,177. Contracts have also been let in the amount of \$629,694 for this project.

In October of 2017 the city signed a contract with the Hancock County Regional Solid Waste Management Authority to provide recycling services to the City. The amount of the contract is for \$137,380. The contract is for one year with four additional 1-year options.

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REQUIRED SUPPLEMENTARY INFORMATION

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**City of Diamondhead, Mississippi**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**General Fund**  
**Budget to Actual - (Prepared on the Budgetary Basis)**  
**For the Fiscal Year Ended September 30, 2017**

	Budgeted Amounts		Actual Budgetary Basis	Variances	
	Original	Final		Favorable (Unfavorable)	
				Original to Final	Final to Actual
<b>Revenues:</b>					
Property taxes	2,970,936	2,970,936	3,125,564	-	154,628
General sales taxes	500,000	500,000	573,452	-	73,452
Franchise fees	300,000	300,000	273,746	-	(26,254)
Licenses and permit fees	54,600	54,600	94,735	-	40,135
Intergovernmental	479,561	479,561	401,039	-	(78,522)
Charges for services	-	-	544	-	544
Fines and forfeitures	192,500	192,500	142,894	-	(49,606)
Investment earnings	9,000	9,000	26,622	-	17,622
Miscellaneous	15,000	15,000	10,257	-	(4,743)
<b>Total Revenues</b>	<b>4,521,597</b>	<b>4,521,597</b>	<b>4,648,853</b>	<b>-</b>	<b>127,256</b>
<b>Expenditures:</b>					
<b>General government:</b>					
Personnel services	612,876	629,153	519,997	(16,277)	109,156
Supplies	34,570	34,570	27,843	-	6,727
Other services and charges	977,636	981,671	764,778	(4,035)	216,893
<b>Total general government</b>	<b>1,625,082</b>	<b>1,645,394</b>	<b>1,312,618</b>	<b>(20,312)</b>	<b>332,776</b>
<b>Public safety:</b>					
Personnel services	27,576	27,576	15,566	-	12,010
Supplies	91,854	91,854	57,917	-	33,937
Other services and charges	749,862	749,862	666,052	-	83,810
<b>Total public safety</b>	<b>869,292</b>	<b>869,292</b>	<b>739,535</b>	<b>-</b>	<b>129,757</b>
<b>Public works:</b>					
Personnel services	889,923	889,923	690,450	-	199,473
Supplies	365,681	371,681	135,724	(6,000)	235,957
Other services and charges	205,909	206,459	181,830	(550)	24,629
<b>Total public works</b>	<b>1,461,513</b>	<b>1,468,063</b>	<b>1,008,004</b>	<b>(6,550)</b>	<b>460,059</b>
<b>Building/Planning &amp; zoning</b>					
Personnel services	157,639	137,227	127,464	20,412	9,763
Supplies	6,200	8,400	5,969	(2,200)	2,431
Other services and charges	28,850	22,210	20,535	6,640	1,675
<b>Total building/planning &amp; zoning</b>	<b>192,689</b>	<b>167,837</b>	<b>153,968</b>	<b>24,852</b>	<b>13,869</b>
<b>Economic development</b>					
Supplies	500	500	-	-	500
Other services and charges	83,000	83,000	17,800	-	65,200
<b>Total culture and recreation</b>	<b>83,500</b>	<b>83,500</b>	<b>17,800</b>	<b>-</b>	<b>65,700</b>
Capital Outlay	2,149,289	2,123,690	1,298,684	25,599	825,006
Debt service	108,271	108,271	222,753	-	(114,482)
<b>Total Expenditures</b>	<b>6,489,636</b>	<b>6,466,047</b>	<b>4,753,362</b>	<b>23,589</b>	<b>1,712,685</b>
<b>Excess (Deficiency) of Revenues</b>					
Over Expenditures	(1,968,039)	(1,944,450)	(104,509)	(23,589)	1,839,941

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

**City of Diamondhead, Mississippi**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balance**  
**General Fund**  
**Budget to Actual - (Prepared on the Budgetary Basis)**  
**For the Fiscal Year Ended September 30, 2017**

	Budgeted Amounts		Actual Budgetary Basis	Variances	
				Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Other Financing Sources (Uses):					
Proceeds from capital leases	500,000	500,000	311,567	-	(188,433)
Sale of capital assets	-	-	1,201	-	1,201
Insurance proceeds	1,000	1,000	16,617	-	15,617
Transfers out	(1,139,958)	(1,151,807)	(252,368)	(11,849)	899,439
Total Other Financing Sources (Uses)	<u>(638,958)</u>	<u>(650,807)</u>	<u>77,017</u>	<u>(11,849)</u>	<u>727,824</u>
Net change in fund balance - budgetary basis \$	<u>(2,606,997)</u>	<u>(2,595,257)</u>	(27,492)	<u>11,740</u>	<u>2,567,765</u>
Net Change in fund balance - Budget-Cash Basis			\$ (27,492)		
Revenues per Cash-basis Budget		4,648,853			
Additional accrued revenues		<u>(33,300)</u>	(33,300)		
Revenues per Fund Financial Statements		<u>4,615,553</u>			
Expenditures per Cash-basis Budget		4,753,362			
Additional accrued expenses		<u>284</u>	(284)		
Expenditures per Fund Financial Statement		<u>4,753,646</u>			
Net Change in fund balance - Fund Financials			<u>\$ (61,076)</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-Budgetary Schedules  
For the Fiscal Year Ended September 30, 2017

A. Budgetary Information.

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

D. Budgetary Data

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

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

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SUPPLEMENTAL INFORMATION

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**City of Diamondhead, Mississippi**  
 Schedule of Surety Bonds  
 (Required by State of Mississippi)  
 For the Fiscal Year Ended September 30, 2017

Position	Name	Amount
Mayor	Thomas E. Schafer IV	\$ 100,000
Councilman	Lindsay L'Ecuyer	100,000
Councilwoman	Nancy Depreo	100,000
Councilman	Alan Moran	100,000
Councilwoman	Jamie Wetzel Morgan	100,000
Councilman	Kodie Koenenn	100,000
City Manager	Michael J. Reso	50,000
Interim City Manager	Richard Sullivan	50,000
City Clerk	Jeannie Klein	50,000
Deputy City Clerk	Tammy Garber	50,000
Treasurer	Catherine Konkel	50,000
Accounts Payable Clerk	Connie Scott	50,000
Building Official	Ronald Jones	50,000
Deputy Building Official	Stanley Fudge	50,000
Code Enforcement Officer	William Racz	50,000
Court Clerk	Lolita McSwain	50,000
Court Clerk	Connie Scott	50,000
Deputy Court Clerk	Lauren Prater	50,000
Receptionist	Tammy Braud	50,000

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SPECIAL REPORTS

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WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

*Certified Public Accountants*

HANCOCK BANK BUILDING

2510 - 14TH STREET

P.O. BOX 129

GULFPORT, MISSISSIPPI 39502

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

August 23, 2018

Honorable Mayor and  
City Council of  
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 (the "City") as and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 23, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization'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.

Walter Wood Guthrie & Kemp

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**LIMITED INTERNAL CONTROL AND  
COMPLIANCE REVIEW MANAGEMENT REPORT**

August 23, 2018

Honorable Mayor and  
City Council of  
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, 2017, we considered the City'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 County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated August 23, 2018, 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.

Although no findings came to our attention as a result of these review procedures and compliance tests, these procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of the 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.

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.

*Wright Ward Hatten & Guel*

City of Diamondhead, Mississippi  
Schedule of Findings and Questioned Costs  
September 30, 2017

**SECTION 1 – SUMMARY OF AUDITORS’ RESULTS**

Financial Statements:

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

**SECTION 2 – FINANCIAL STATEMENT FINDINGS**

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.