

City of Diamondhead, Mississippi

Comprehensive Annual Financial Report

For the Year Ended September 30, 2018

July 16, 2019

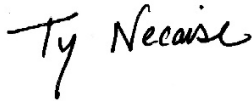
Honorable Mayor and City Council
City of Diamondhead, Mississippi

Dear Honorable Mayor and City Council:

We are pleased to submit to you the 2018 financial and compliance audit report for The City of Diamondhead. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

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

Respectfully submitted,



Ty J Necaise, MBA, CPA

City of Diamondhead, Mississippi
Table of Contents

INTRODUCTORY SECTION	1
Elected Officials	2
Organization Chart	3
FINANCIAL SECTION	4
INDEPENDENT AUDITOR’S REPORT	5
MANAGEMENT’S DISCUSSION AND ANALYSIS	7
FINANCIAL STATEMENTS	
Statement of Net Position	14
Statement of Activities	15
Balance Sheet – Governmental Funds	16
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	19
Statement of Fiduciary Assets and Liabilities	20
Notes to Financial Statements	21
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)	
General Fund	38
Exit Lighting Fund	39
Solid Waste Fund	40
SUPPLEMENTARY INFORMATION	
Schedule of Surety Bonds	43
SPECIAL REPORTS	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45
Limited Internal Control and Compliance Review Management Report	47
Independent Auditor’s Report on Compliance with State Laws and Regulations	49
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	50
STATISTICAL SECTION (Unaudited)	52
Financial Trends	
Net Position by Component, Last Two Fiscal Years	53
Changes in Net Position, Last Two Fiscal Years	54
Program Revenues by Function/Program, Last Two Fiscal Years	55
Fund Balances, Governmental Funds, Last Seven Fiscal Years	56
Changes in Fund Balances, Governmental Funds, Last Seven Fiscal Years	57
Tax Revenues by Source, Governmental Funds, Last Seven Fiscal Years	59
Revenue Capacity	
Assessed Value and Estimated Actual Value of Taxable Property, Last Seven Fiscal Years	60
Direct and Overlapping Property Tax Rates, Last Seven Fiscal Years	61
Principal Property Tax Payers, Current Year and Seven Years Ago	62

City of Diamondhead, Mississippi
Table of Contents

STATISTICAL SECTION (continued)

Revenue Capacity (continued)	
Property Tax Levies & Collections, Last Seven Fiscal Years	63
Taxable Sales by Category, Last Seven Years	64
Direct and Overlapping Sales Tax Rates, Last Seven Fiscal Years	65
Debt Capacity	
Ratios of Outstanding Debt by Type, Last Seven Fiscal Years	66
Demographics & Economic Information	
Demographic and Economic Statistics, Last Seven Calendar Years	67
Principal Employers, Current Year and Seven Years Ago	68
Operating Information	
Full-time Equivalent City Government Employees by Function/Program, Last Seven Fiscal Years	69
Operating Indicators by Function/Program, Last Seven Fiscal Years	70

INTRODUCTORY SECTION

**City of Diamondhead, Mississippi
Elected Officials
September 30, 2018**



Thomas E. Schafer, IV
Mayor



Lindsay "Tink" L'Ecuyer
At-Large



Nancy Depreo
Ward 1



Alan Moran
Ward 2

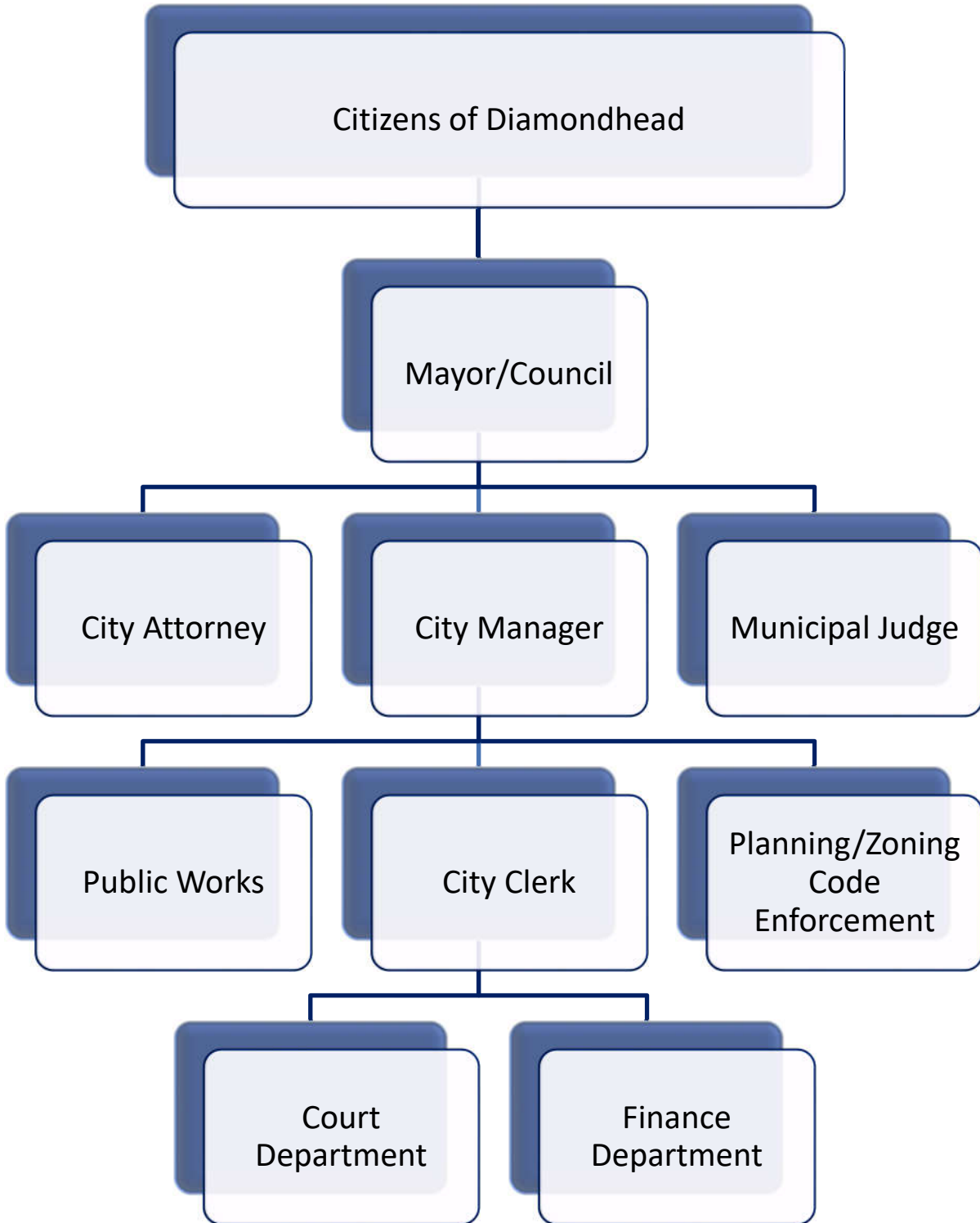


Jamie Wetzel Morgan
Ward 3



Kodie Koenenn
Ward 4

City of Diamondhead, Mississippi
Organization Chart
September 30, 2018



FINANCIAL SECTION

Independent Auditor's Report

Honorable Mayor and City Council
City of Diamondhead, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Diamondhead, Mississippi, (the City) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Diamondhead, Mississippi, as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 and 38 be presented to supplement the basic financial statements.

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

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2019, on our consideration of the City of Diamondhead, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Diamondhead, Mississippi's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Diamondhead, Mississippi's internal control over financial reporting and compliance.

Necaise & Company PLLC

Necaise & Company PLLC
Gulfport, Mississippi
July 16, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS



This section of the City of Diamondhead, Mississippi's Annual Financial Report presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal year ended September 30, 2018 and 2017. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow.

The City of Diamondhead is located in southeastern Hancock County, Mississippi, United States. The city is located just over 50 miles northeast of New Orleans, Louisiana. It is part of the Gulfport-Biloxi Metropolitan Statistical Area. According to the United States Census Bureau's recent estimates, the estimated population of the City of Diamondhead as of July 1, 2018, is 8,044. The median household income is \$67,207 with over 96.9% of persons 25 years or older holding a high school degree or higher.

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

The components of this annual financial report include:

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

Government-Wide Financial Highlights

- The total assets of the City exceeded total liabilities for the fiscal year ended September 30, 2018 by \$65,244,432 (net position). Of this amount \$5,438,467 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- General revenues amounted to \$5,038,082 or 86% of total revenues. This amount increased \$794,798 from 2017. Program revenues amounted to \$836,250 or 14% of total revenues, which decreased \$186,500 from 2017. This decrease was mostly due to a decrease in grants received for capital projects.
- Capital assets, net of accumulated depreciation, decreased by \$1,735,987 during 2018. The decrease in governmental capital assets is primarily due to annual depreciation.
- Outstanding debt owed to Hancock Bank decreased by \$135,030.

Fund Statement Financial Highlights

- *General Fund* – This fund is used for the general operations of the City. The General Fund had \$4,769,186 in revenues and \$3,615,794 in expenditures in the current year. The General Fund's fund balance increased \$1,171,447 for fiscal year 2018.
- *Exit Lighting Fund* – This fund is a capital projects fund used for capital expenditures associated with I-10 Exit lighting. The Exit Lighting Fund disbursed \$73,626 toward this capital project for fiscal year 2018.
- *Solid Waste Fund* – This fund is a special revenue fund that is meant to be self-supporting. The Solid Waste Fund accounts for the revenue, expenditures, and transfers associated with the collection and recycling or disposal of solid waste. The Solid Waste Fund had \$464,764 in revenues and \$576,017 in expenditures for fiscal year 2018.

Overview of the Financial Statements

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

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

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

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

Other Information

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

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

Financial Analysis

Statement of Net Position and the Statement of Activities

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

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

In the Statement of Activities, the City's activities are reported as governmental activities, which include all of the City's services including general government, public safety, public works, building/planning and zoning, community services, and solid waste. As of September 30, 2018 the City has no component units.

Financial Analysis (continued)

The following table (Table 1) presents the condensed statement of net position as of September 30, 2018 and 2017, derived from the City's Statement of Net Position (Exhibit 1).

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

	2018	2017	Change
Current and other assets	\$ 8,953,494	\$ 7,847,076	\$ 1,106,418
Capital assets, net	<u>61,047,400</u>	<u>62,783,387</u>	<u>(1,735,987)</u>
Total assets	<u>70,000,894</u>	<u>70,630,463</u>	<u>(629,569)</u>
Current and other liabilities	377,024	319,066	57,958
Long-term debt	<u>1,248,507</u>	<u>1,383,537</u>	<u>(135,030)</u>
Total liabilities	<u>1,625,531</u>	<u>1,702,603</u>	<u>(77,072)</u>
Total deferred inflows	<u>3,130,931</u>	<u>3,195,899</u>	<u>(64,968)</u>
Net position:			
Net investment in capital assets	59,798,893	61,399,850	(1,600,957)
Restricted	70,919	138,911	(67,992)
Unrestricted	<u>5,374,620</u>	<u>4,193,200</u>	<u>1,181,420</u>
Total net position	<u>\$ 65,244,432</u>	<u>\$ 65,731,961</u>	<u>\$ (487,529)</u>

The City's net position at fiscal year-end is \$65,244,432. This is a \$487,529 decrease from last year's net position of \$65,731,961. The decrease is primarily due to annual depreciation on capital assets.

The City reported a positive balance in net position for both 2018 and 2017. The following is a summary of the more significant changes:

- Cash, receivables, and other assets increased \$1,106,418.
- Long-term debt decreased by \$135,030.
- Capital assets decreased by \$1,735,987. This decrease was primarily due to current year depreciation.

Financial Analysis (continued)

The following table (Table 2) presents the City's condensed statement of activities for the fiscal years ended September 30, 2018 and 2017. For more detailed information see the Statement of Activities (Exhibit 2).

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

	2018	2017	Change
<i>Revenues</i>			
Program revenues	\$ 836,250	\$ 1,022,750	\$ (186,500)
General revenues	<u>5,038,082</u>	<u>4,243,284</u>	<u>794,798</u>
Total revenues	<u>5,874,332</u>	<u>5,266,034</u>	<u>608,298</u>
<i>Expenses</i>			
General government	1,301,258	1,395,957	(94,699)
Public safety	996,301	867,809	128,492
Public works	3,842,067	3,888,329	(46,262)
Culture & recreation	31,548	-	31,548
Conservation of natural resources	14,989	-	14,989
Economic development & assistance	476	17,800	(17,324)
Interest on long-term debt	<u>29,215</u>	<u>36,713</u>	<u>(7,498)</u>
Total expenses	<u>6,215,854</u>	<u>6,206,608</u>	<u>9,246</u>
Increase (decrease) in net position	<u>(341,522)</u>	<u>(940,574)</u>	<u>599,052</u>
Net Position, beginning	65,731,961	66,725,519	(993,558)
Prior Period Adjustment	<u>(146,007)</u>	<u>(52,984)</u>	<u>(93,023)</u>
Net Position, beginning, restated	<u>65,585,954</u>	<u>66,672,535</u>	<u>(1,086,581)</u>
Net Position, ending	<u>\$ 65,244,432</u>	<u>\$ 65,731,961</u>	<u>\$ (487,529)</u>

Fund Financial Statements

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

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

Budgetary Highlights

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

During the course of 2018, the City amended its budget. All recommendations for a budget change come from the City Clerk to the Council for approval. State law does not allow budget changes that modify functional levels of budget amounts within a department without council approval. With the General Fund supporting many of our major activities, such as our public safety expenditures, public works, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments.

Capital Assets

Net capital assets at year-end are \$61,047,400, which reflects a \$1,735,987 decrease from the prior year. The significant decrease is primarily due to current year depreciation expense.

Debt Administration

At year-end, the City had \$1,248,507 in outstanding debt. The debt consists of two (2) capital leases used for the City Hall building and grounds and public works equipment. For more information, see the accompanying notes to the financial statements.

Economic Factors

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

Contacting the City's Management

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

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

FINANCIAL STATEMENTS

City of Diamondhead, Mississippi
Statement of Net Position
September 30, 2018

Exhibit 1

ASSETS

Cash	\$ 5,090,983
Cash, restricted	85,657
Property tax receivable	3,130,931
Franchise tax receivable	74,669
Fines receivable (net of allowance for uncollectibles of \$365,845)	19,877
Prepaid expenses	54,472
Intergovernmental receivables	496,905
Capital assets:	
Nondepreciable capital assets	8,177,118
Depreciable capital assets, net	<u>52,870,282</u>
Total Assets	<u>70,000,894</u>

LIABILITIES

Accounts payable and accrued liabilities	214,566
Due to other governmental agencies	54,137
Accrued interest payable	10,275
Other payables	54,793
Long-term liabilities:	
Compensated absences	43,253
Due within one year	
Capital debt	138,544
Due in more than one year	
Capital debt	<u>1,109,963</u>
Total Liabilities	<u>1,625,531</u>

DEFERRED INFLOWS OF RESOURCES

Property tax for future reporting period	<u>3,130,931</u>
Total Deferred Inflows of Resources	<u>3,130,931</u>

NET POSITION

Net investment in capital assets	59,798,893
Restricted for:	
General government	63,847
Public safety	21,500
Public works	4,736
Conservation of natural resources	(14,989)
Culture and recreation	(4,175)
Unrestricted	<u>5,374,620</u>
Total Net Position	<u>\$ 65,244,432</u>

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

City of Diamondhead, Mississippi
Statement of Activities
For the Year Ended September 30, 2018

Exhibit 2

<i>Functions/Programs</i>	<i>Expenses</i>	<i>Program Revenues</i>		<i>Net (Expense)</i> <i>Revenue and</i> <i>Changes in Net</i> <i>Position</i>
		<i>Charges for</i>	<i>Capital Grants</i> <i>and</i> <i>Contributions</i>	<i>Governmental</i> <i>Activities</i>
		<i>Services</i>		
Governmental activities				
General government	\$ 1,301,258	\$ -	\$ -	\$ (1,301,258)
Public safety	996,301	-	-	(996,301)
Public works	3,842,067	462,658	16,505	(3,362,904)
Culture and recreation	31,548	-	342,098	310,550
Conservation of natural resources	14,989	-	14,989	-
Economic development and assistance	476	-	-	(476)
Interest on long-term debt	<u>29,215</u>	-	-	<u>(29,215)</u>
Total governmental activities	<u>\$ 6,215,854</u>	<u>\$ 462,658</u>	<u>\$ 373,592</u>	<u>\$ (5,379,604)</u>
General revenues:				
Property taxes				\$ 3,427,584
General sales taxes				642,502
Road and bridge privilege taxes				415,878
Franchise taxes				278,510
Unrestricted interest income				71,490
Miscellaneous				<u>202,118</u>
Total general revenues				<u>5,038,082</u>
Change in Net Position				<u>(341,522)</u>
Net position, October 1, 2017, as previously reported				65,731,961
Effect of prior period adjustment				<u>(146,007)</u>
Net position, October 1, 2017, restated				<u>65,585,954</u>
Net position, September 30, 2018				<u>\$ 65,244,432</u>

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

	<u>General Fund</u>	<u>Exit Lighting Fund</u>	<u>Solid Waste Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
ASSETS					
Cash	\$ 4,958,105	\$ -	\$ 66,269	\$ 66,609	\$ 5,090,983
Cash, restricted	63,847	-	-	21,810	85,657
Receivables:					
Property tax	3,130,931	-	-	-	3,130,931
Fines, net	19,877	-	-	-	19,877
Franchise tax	74,669	-	-	-	74,669
Due from other funds	96,459	-	-	-	96,459
Intergovernmental receivables	174,994	-	-	11,447	186,441
Prepaid expenses	54,472	-	-	-	54,472
Total Assets	<u>\$ 8,573,354</u>	<u>\$ -</u>	<u>\$ 66,269</u>	<u>\$ 99,866</u>	<u>\$ 8,739,489</u>
LIABILITIES					
Accounts payable	\$ 201,291	\$ -	\$ -	\$ 13,275	\$ 214,566
Intergovernmental payables	4,808	-	49,329	-	54,137
Due to other funds	-	66,087	-	30,372	96,459
Other payables	63,170	-	-	-	63,170
Total Liabilities	<u>269,269</u>	<u>66,087</u>	<u>49,329</u>	<u>43,647</u>	<u>428,332</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	3,130,931	-	-	-	3,130,931
Unavailable revenue - fines	19,877	-	-	-	19,877
Total Deferred Inflows of Resources	<u>3,150,808</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,150,808</u>
FUND BALANCES					
Restricted:					
General government	63,847	-	-	-	63,847
Public safety	-	-	-	21,810	21,810
Committed:					
Public safety	-	-	-	(310)	(310)
Public works	-	(66,087)	16,940	53,883	4,736
Conservation of natural resources	-	-	-	(14,989)	(14,989)
Culture and recreation	-	-	-	(4,175)	(4,175)
Unassigned	5,089,430	-	-	-	5,089,430
Total Fund Balances	<u>5,153,277</u>	<u>(66,087)</u>	<u>16,940</u>	<u>56,219</u>	<u>5,160,349</u>
Total Liabilities and Fund Balances	<u>\$ 8,573,354</u>	<u>\$ -</u>	<u>\$ 66,269</u>	<u>\$ 99,866</u>	<u>\$ 8,739,489</u>

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

City of Diamondhead, Mississippi
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position
September 30, 2018

Exhibit 3-1

Total Fund Balance - Governmental Funds	\$ 5,160,349
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$ 13,275,285.	61,047,400
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Grant receivable	31,495
Fine receivable	19,877
Other intergovernmental receivable	278,969
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds.	
Compensated absences	(34,876)
Capital debt	(1,248,507)
Interest on long-term debt	<u>(10,275)</u>
Total Net Position - Governmental Activities	<u>\$ 65,244,432</u>

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

**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2018**

	<u>General Fund</u>	<u>Exit Lighting Fund</u>	<u>Solid Waste Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
REVENUES					
Property taxes	\$ 3,427,584	\$ -	\$ -	\$ -	\$ 3,427,584
General sales taxes	642,502	-	-	-	642,502
Franchise taxes	278,510	-	-	-	278,510
Road and bridge privilege taxes	136,909	-	-	-	136,909
Licenses, commissions and other revenue	100,002	-	-	-	100,002
Fines and forfeitures	87,114	-	-	-	87,114
Intergovernmental revenues	15,750	-	-	342,098	357,848
Charges for services	-	-	462,658	-	462,658
Interest	68,140	-	2,106	1,244	71,490
Other revenues	<u>12,675</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,675</u>
Total revenues	<u>4,769,186</u>	<u>-</u>	<u>464,764</u>	<u>343,342</u>	<u>5,577,292</u>
EXPENDITURES					
Current:					
General government	1,207,743	-	-	-	1,207,743
Public safety	957,632	-	-	-	957,632
Public works	1,265,281	73,626	576,017	11,208	1,926,132
Culture and recreation	20,500	-	-	299,509	320,009
Conservation of natural resources	-	-	-	14,989	14,989
Economic development and assistance	476	-	-	-	476
Debt service:					
Capital lease	135,030	-	-	-	135,030
Interest	<u>29,132</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,132</u>
Total expenditures	<u>3,615,794</u>	<u>73,626</u>	<u>576,017</u>	<u>325,706</u>	<u>4,591,143</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,153,392</u>	<u>(73,626)</u>	<u>(111,253)</u>	<u>17,636</u>	<u>986,149</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	42,589	7,539	-	-	50,128
Transfers out	(30,427)	-	-	(42,589)	(73,016)
Sale of assets	<u>5,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,893</u>
Total other financing sources (uses)	<u>18,055</u>	<u>7,539</u>	<u>-</u>	<u>(42,589)</u>	<u>(16,995)</u>
Net change in fund balances	1,171,447	(66,087)	(111,253)	(24,953)	969,154
Fund balances, October 1, 2017	3,981,830	-	-	209,365	4,191,195
Fund reclassification	<u>-</u>	<u>-</u>	<u>128,193</u>	<u>(128,193)</u>	<u>-</u>
Fund balances, September 30, 2018	<u>\$ 5,153,277</u>	<u>\$ (66,087)</u>	<u>\$ 16,940</u>	<u>\$ 56,219</u>	<u>\$ 5,160,349</u>

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

City of Diamondhead, Mississippi
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2018

Exhibit 4-1

Net Changes in Fund Balances - Governmental Funds	\$ 969,154
The change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlays	738,785
Depreciation expense	(2,461,400)
In the Statement of Activities, only gain and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the loss.	
	(13,372)
Fine revenue recognized on the modified cash basis in the funds during the current year is decreased because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	
	(13,422)
Grant revenue recognized on the modified accrual basis in the funds during the current year is increased because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	
Current year accrual	353,052
Recognized on Statement of Net Position in the prior year	(42,589)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount of debt repayments.	
Principal payments	135,030
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:	
Compensated absences	(6,677)
Accrued interest	(83)
Changes in Net Position of Governmental Activities	<u>\$ (341,522)</u>

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

City of Diamondhead, Mississippi
Statement of Fiduciary Assets and Liabilities
September 30, 2018

Exhibit 5

Assets

Current assets:

Cash	\$ 7,677
Other receivables	<u>6,068</u>
Total assets	<u><u>13,745</u></u>

Liabilities

Current liabilities:

Amounts held in custody of others	7,677
Due to other governments	<u>6,068</u>
Total liabilities	<u><u>\$ 13,745</u></u>

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 1: Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

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

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

Diamondhead Fire District
Diamondhead Water and Sewer District

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

Basis of Presentation

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

Government-wide Financial Statements:

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

The Statement of Net Position presents the financial condition of the governmental activities of the City at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct Expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, 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 government 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, deferred outflows, liabilities, deferred inflows, fund balances, revenues and expenditures/expenses. Funds are organized into governmental and fiduciary. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column as Other Governmental Funds.

Measurement Focus and Basis of Accounting

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

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

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

The City reports the following major Governmental Funds:

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

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

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

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

FIDUCIARY FUND TYPE

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

Account Classifications

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

Deposits and Investments

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

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

Receivables

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

Interfund Transactions and Balances

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

Prepays

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

Capital Assets

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

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

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

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.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

The following schedule details those thresholds and estimated useful lives:

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

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

Deferred Outflows/Inflows of Resources

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

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

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

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

Long-term Liabilities

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

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

Equity Classifications

Government-wide Financial Statements:

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

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

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

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

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

Fund Financial Statements:

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

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

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

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

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the City Council. The City Council is the highest level of decision-making authority of the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the City Council.

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 1: Summary of Significant Accounting Policies (continued)

Property Tax Revenues

Hancock County bills and collects the real, personal, and auto ad valorem taxes for the City for a commission of 2% of gross collections not to exceed \$40,000 per year.

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

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

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

Intergovernmental Revenues in Governmental Funds

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

Compensated Absences

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

The City's policy on vacation leave allows employees to accrue vacation time based on a certain accrual rate per pay period once that employee has had one year of continuous service for the City. There are no restrictions on when the employees are allowed to take their vacation time. Retiring and voluntarily terminating employees can be paid for up to 15 days of unused vacation. It is the City's policy that all unused sick leave is forfeited upon termination, retirement, or layoff. There is no liability for unpaid accumulated sick leave since sick pay is not paid upon termination of employment. In fund financial statements, governmental funds report the compensated absences liability payable only if the payable has matured, for example, as a result of employee resignations and retirements or use of vacation time.

The compensated absences liability was computed using the specific identification method whereby the actual number of vacation hours is multiplied by the employee's hourly rate at September 30, 2018. The resulting liability is then increased to include payroll taxes that the City is required to pay upon liquidation of the liability.

Use of Estimates

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 2: Cash

Primary Government

The carrying amount of the City's total deposits with financial institutions at September 30, 2018, was \$5,184,317, and the bank balance was \$5,197,943. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

Note 3: Interfund Transactions and Balances

The following is a summary of interfund balances at September 30, 2018:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Exit Lighting Fund	\$ 66,087
	Other Governmental Funds	<u>30,372</u>
		<u>\$ 96,459</u>

Transfers In/Out

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 42,589
Exit Lighting Fund	General Fund	7,539
Fiduciary Fund	General Fund	<u>22,888</u>
		<u>\$ 73,016</u>

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 4: Intergovernmental Receivables

Intergovernmental receivables at September 30, 2018, consisted of the following:

<i>Description</i>	<u>Amount *</u>
Due from state	\$ 130,230
Various federal and local sources	<u>56,211</u>
Intergovernmental receivables, Exhibit 3	<u>186,441</u>
Long-term grants receivable	31,495
Long-term other intergovernmental receivable	<u>278,969</u>
Intergovernmental receivables, Exhibit 1	<u>\$ 496,905</u>

* The City has old outstanding grant reimbursements that are not likely to be collected in the next 12 months and a long term receivable for Road and Bridge Privilege taxes from Hancock County, therefore, long-term receivables were recognized on the government-wide statements.

Note 5: Capital Assets

	<u>Balance</u>			<u>Adjustments/</u>	
	<u>10/1/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	<u>Balance</u>
					<u>9/30/2018</u>
Capital assets, not being depreciated					
Land	\$ 8,003,901	\$ -	\$ -	\$ -	\$ 8,003,901
Construction in progress	<u>411,738</u>	<u>621,408</u>	-	<u>(859,929)</u>	<u>173,217</u>
Total capital assets, not being depreciated	<u>8,415,639</u>	<u>621,408</u>	-	<u>(859,929)</u>	<u>8,177,118</u>
Capital assets, being depreciated					
Infrastructure	61,526,348	859,929	-	-	62,386,277
Building and improvements	1,867,637	-	-	-	1,867,637
Improvement other than buildings	1,030	-	-	-	1,030
Mobile equipment	1,689,856	97,848	(26,773)	-	1,760,931
Furniture and equipment	<u>123,074</u>	<u>19,529</u>	<u>(12,911)</u>	-	<u>129,692</u>
Total capital assets, being depreciated	<u>65,207,945</u>	<u>977,306</u>	<u>(39,684)</u>	-	<u>66,145,567</u>
Less accumulated depreciation for:					
Infrastructure	9,972,567	2,190,299	-	-	12,162,866
Building and improvements	92,185	44,806	-	-	136,991
Improvement other than buildings	47	51	-	-	98
Mobile equipment	691,490	210,593	(14,466)	-	887,617
Furniture and equipment	<u>83,908</u>	<u>15,651</u>	<u>(11,846)</u>	-	<u>87,713</u>
Total accumulated depreciation	<u>10,840,197</u>	<u>2,461,400</u>	<u>(26,312)</u>	-	<u>13,275,285</u>
Total capital assets, being depreciated, net	<u>54,367,748</u>	<u>(1,484,094)</u>	<u>(13,372)</u>	-	<u>52,870,282</u>
Capital assets, net	<u>\$ 62,783,387</u>	<u>\$ (862,686)</u>	<u>\$ (13,372)</u>	<u>\$ (859,929)</u>	<u>\$ 61,047,400</u>

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 5: Capital Assets (continued)

Depreciation expense was charged to the following functions:

General government	\$ 73,550
Public safety	100,807
Public works	2,283,450
Culture and recreation	<u>3,593</u>
	<u>\$ 2,461,400</u>

Commitments with respect to unfinished capital projects at September 30, 2018, consisted of the following:

<u>Description</u>	<u>Remaining Financial Commitment</u>	<u>Expected Completion Date</u>
Diamondhead Drive East	\$ 151,358	August 2019
Ieke/Amoka Drive	15,920	December 2018
Diamondhead Drive West	58,263	July 2019
Miller Retention Pond	981,500	September 2020
MDOT I-10 Lighting	649,070	May 2019
East Aloha Widening	224,354	September 2020
Ahoni Street Expansion	<u>83,276</u>	April 2019
	<u>\$ 2,163,741</u>	

Note 6: Claims and Judgments

Risk Financing

The City finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The City pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2018 to January 1, 2019. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 7: Capital Leases

As Lessee:

The City is obligated for the following capital assets acquired through capital leases as of September 30, 2018:

<u>Class of Property</u>	<u>Governmental Activities</u>
Building and grounds, City Hall	2,172,204
Furniture and equipment	311,567
Less: accumulated depreciation	<u>(206,672)</u>
Leased property under capital lease	<u><u>2,277,099</u></u>

* See Note 9, Long-term Debt, for details on future maturities.

Note 8: Long-term Debt

Debt outstanding as of September 30, 2018, consisted of the following:

	<u>Original Amount</u>	<u>Balance 9/30/2018</u>	<u>Maturity</u>	<u>Interest Rate</u>
<i>Capital Lease:</i>				
City Hall	\$ 1,286,415	\$ 996,822	2029	3.09%
Public Works Vehicles & Equipment	<u>311,567</u>	<u>251,685</u>	2022	1.99%
<i>Total Outstanding Debt</i>	<u><u>\$ 1,597,982</u></u>	<u><u>\$ 1,248,507</u></u>		

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

<i>Year Ending September 30,</i>	<u>Capital Lease</u>	
	<u>Principal</u>	<u>Interest</u>
2019	138,544	35,811
2020	142,153	32,201
2021	145,861	28,494
2022	149,669	24,685
thereafter	<u>672,280</u>	<u>85,620</u>
Total	<u><u>\$ 1,248,507</u></u>	<u><u>\$ 206,811</u></u>

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 8: Long-term Debt (continued)

Capital Leases

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

Under the terms of these agreements, rental and additional rental payments made by the City are paid directly to Hancock Bank as repayment of Southern Mississippi Investment Co, Inc.'s loan. As of September 30, 2018, the City has \$63,847 in cash that is restricted for City Hall buildings and grounds renovation. Any of this restricted cash that is not used when the City Hall renovation is complete must be used to prepay the loan.

Legal Debt Margin

The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2018, all of the City's debt was exempt from legal debt margin calculations per state statute.

Interest Expense

For year ended September 30, 2018, \$29,215 in interest was expensed and is included in the Statement of Activities under interest expense.

The following is a summary of change in long-term liabilities and obligations for the year ended September 30, 2018:

	<i>Balance</i>			<i>Balance</i>	<i>Due Within</i>
	<u>10/1/2017</u>	<i>Additions</i>	<i>Payments</i>	<u>9/30/2018</u>	<u>One Year</u>
Capital leases	1,383,537	-	(135,030)	1,248,507	138,544
Compensated absences	<u>34,732</u>	<u>13,848</u>	<u>(5,327)</u>	<u>43,253</u>	<u>8,377</u>
Total	<u>\$ 1,418,269</u>	<u>\$ 13,848</u>	<u>\$ (140,357)</u>	<u>\$ 1,291,760</u>	<u>\$ 146,921</u>

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 9: Deficit Fund Balances of Individual Funds

The following funds reported deficits in fund balances at September 30, 2018:

<u>Fund</u>	<u>Deficit</u>
Exit Lighting Fund	66,087
Grant Fund	4,175
East Aloha Widening	11,208
Montjoy Creek Fund	14,988

Note 10: Commitments and Contingencies

Federal Grants

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

Litigation

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

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

Operating Lease Commitments

Non-cancellable operating leases at September 30, 2018 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 office. 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, 2018 totaled \$5,244.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 10: Commitments and Contingencies (continued)

Operating Lease Commitments (continued)

The future non-cancellable lease obligation of these leases at September 30, 2018 is as follows:

Year Ended September 30,	Total
2019	\$ 4,824
2020	3,228
2021	3,228
2022	1,322
Total	\$ 12,602

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.

Tax Collection Services

In February 2012, the City entered into an interlocal agreement with Hancock County, Mississippi (County), whereby the County Tax Collector will provide real, personal, and auto ad valorem property taxes collection services for the City. The terms of the agreement include automatic annual renewal. The agreement can be terminated by either party by written notification. Under the terms of the agreement, the County Tax Collector will retain 2% of gross collections as commission, not to exceed \$40,000 per year.

Delinquent Taxes Collection Services

In February 2012, the City entered into an interlocal agreement with Hancock County, Mississippi (County), whereby the County Chancery Clerk will provide delinquent tax redemption payment services for the City. The terms of the agreement include automatic annual renewal. The agreement can be terminated by either party by written notification not less than nine months in advance of annual renewal date. Under the terms of agreement, the County Chancery Clerk will be paid \$10 per parcel for cost incurred.

Solid Waste Fees Collections Services

In November 2013, the City entered into an interlocal agreement with Hancock County, Mississippi (County), whereby the County Tax Collector will provide solid waste fees collections for the City. Under the terms of the agreement, services commenced on January 1, 2014 and automatically renews annually. The agreement can be terminated by either party.

Solid Waste Collections

Currently, the City's solid waste collections are provided through a contract between Hancock County Regional Solid Waste Authority (Authority) and Waste Management of Mississippi, Inc. (Contractor). Under the terms of the contract, the Contractor will collect, haul, and dispose of solid waste generated by the City's residents. The Contractor submits monthly invoices to the Authority for these services. The Authority bills the City for its respective portion of the Contractor's invoices.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

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

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

Note 12: Jointly Governed Organizations

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

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

Note 13: Deferred Compensation Plan

Plan Description

The City, as administered through the MS Deferred Compensation Plan, offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Service Code Section 457 and enacted by the Mississippi State Legislature. The Mississippi Deferred Compensation Plan is a supplementary retirement savings plan. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

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

Funding Policy

The plan is voluntary, and contributions are matched up to a certain percent designated by Council. The City matches an employee's contributions on a dollar for dollar basis up to a maximum of 8% of the employee's salary or \$5,000 per fiscal year, whichever is less. The City contributed \$26,888 to the deferred compensation plan for the fiscal year ended September 30, 2018.

Note 14: Prior Period Adjustment

A summary of significant fund equity adjustments is as follows:

Exhibit 2 – Statement of Activities

<u>Explanation</u>	<u>Amount</u>
Correction to prior-year fines receivable	<u>(146,007)</u>
Total prior period adjustments	<u><u>\$ (146,007)</u></u>

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2018

Note 15: Subsequent Events

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

Management of The City of Diamondhead evaluated the activity of the City through July 16, 2019, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

REQUIRED SUPPLEMENTARY INFORMATION

City of Diamondhead, Mississippi
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
For the Year Ended September 30, 2018
UNAUDITED

General Fund

	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Variance with</i>
	<i>Budget</i>	<i>Budget</i>	<i>(Budgetary</i>	<i>Final Budget</i>
			<i>Basis)</i>	<i>Positive</i>
				<i>(Negative)</i>
Revenues				
Property taxes	\$ 3,302,085	\$ 3,403,985	\$ 3,480,886	\$ 76,901
General sales taxes	500,000	500,000	624,702	124,702
Franchise taxes	125,000	260,000	280,339	20,339
Road and bridge privilege taxes	100,000	272,421	136,986	(135,435)
Licenses, commission and other revenue	81,700	81,700	100,002	18,302
Fines and forfeitures	117,000	71,400	86,568	15,168
Intergovernmental revenues	12,000	12,000	13,275	1,275
Charges for services	75	75	41	(34)
Interest income	10,000	63,000	68,140	5,140
Miscellaneous	11,125	14,084	12,634	(1,450)
Total revenues	<u>4,258,985</u>	<u>4,678,665</u>	<u>4,803,573</u>	<u>124,908</u>
Expenses				
Current:				
General government	1,326,806	1,333,106	1,185,246	147,860
Public safety	938,984	985,474	950,722	34,752
Public works	1,747,600	1,606,211	1,238,349	367,862
Culture and recreation	20,500	20,500	20,500	-
Economic development and assistance	21,500	476	476	-
Debt service:				
Capital lease	141,230	135,030	135,030	-
Interest	39,324	39,324	39,324	-
Total expenditures	<u>4,235,944</u>	<u>4,120,121</u>	<u>3,569,647</u>	<u>550,474</u>
Excess (deficiency) of revenues over (under) expenditures	<u>23,041</u>	<u>558,544</u>	<u>1,233,926</u>	<u>675,382</u>
Other Financing Sources				
Sale of asset	-	5,893	5,893	-
Transfers out	(137,000)	(184,160)	(7,539)	176,621
Total other financing sources (uses)	<u>(137,000)</u>	<u>(178,267)</u>	<u>(1,646)</u>	<u>176,621</u>
Net change in fund balance	(113,959)	380,277	1,232,280	852,003
Fund balance, October 1, 2017	<u>1,435,909</u>	<u>1,447,649</u>	<u>4,015,414</u>	<u>2,567,765</u>
Fund balance, September 30, 2018	<u>\$ 1,321,950</u>	<u>\$ 1,827,926</u>	<u>\$ 5,247,694</u>	<u>\$ 3,419,768</u>

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

City of Diamondhead, Mississippi
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
For the Year Ended September 30, 2018
 UNAUDITED

Exit Lighting Fund

	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Variance with</i>
	<i>Budget</i>	<i>Budget</i>	<i>(Budgetary</i>	<i>Final Budget</i>
	<u> </u>	<u> </u>	<i>Basis)</i>	<i>Positive</i>
			<u> </u>	<i>(Negative)</i>
			<u> </u>	<u> </u>
<i>Revenues</i>				
Intergovernmental revenues	\$ 400,000	\$ 448,485	\$ -	\$ (448,485)
Total revenues	<u>400,000</u>	<u>448,485</u>	<u>-</u>	<u>(448,485)</u>
<i>Expenses</i>				
Current:				
Public works	<u>500,000</u>	<u>560,606</u>	<u>73,626</u>	<u>486,980</u>
Total expenditures	<u>500,000</u>	<u>560,606</u>	<u>73,626</u>	<u>486,980</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(100,000)</u>	<u>(112,121)</u>	<u>(73,626)</u>	<u>38,495</u>
<i>Other Financing Sources</i>				
Transfers in	<u>100,000</u>	<u>112,121</u>	<u>7,539</u>	<u>(104,582)</u>
Total other financing sources	<u>100,000</u>	<u>112,121</u>	<u>7,539</u>	<u>(104,582)</u>
Net change in fund balance	-	-	(66,087)	(66,087)
Fund balance, October 1, 2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, September 30, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (66,087)</u>	<u>\$ (66,087)</u>

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

City of Diamondhead, Mississippi
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
For the Year Ended September 30, 2018
 UNAUDITED

Solid Waste Fund

	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Variance with</i>
	<i>Budget</i>	<i>Budget</i>	<i>(Budgetary</i>	<i>Final Budget</i>
	<u> </u>	<u> </u>	<i>Basis)</i>	<i>Positive</i>
			<u> </u>	<i>(Negative)</i>
<i>Revenues</i>				
Charges for services	\$ 460,000	\$ 460,000	\$ 460,036	\$ 36
Interest	-	1,500	2,106	606
Total revenues	<u>460,000</u>	<u>461,500</u>	<u>462,142</u>	<u>642</u>
<i>Expenses</i>				
<i>Current:</i>				
Public works	<u>465,000</u>	<u>579,182</u>	<u>575,938</u>	<u>3,244</u>
Total expenditures	<u>465,000</u>	<u>579,182</u>	<u>575,938</u>	<u>3,244</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,000)</u>	<u>(117,682)</u>	<u>(113,796)</u>	<u>3,886</u>
Net change in fund balance	(5,000)	(117,682)	(113,796)	3,886
Fund balance, October 1, 2017	<u>193,589</u>	<u>193,589</u>	<u>128,193</u>	<u>(65,396)</u>
Fund balance, September 30, 2018	<u>\$ 188,589</u>	<u>\$ 75,907</u>	<u>\$ 14,397</u>	<u>\$ (61,510)</u>

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

City of Diamondhead, Mississippi
Notes to the Required Supplementary Information (Unaudited)
For the Year Ended September 30, 2018

Note 1: Budgetary Information

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

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

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

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

Note 2: Basis of Presentation

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

Note 3: Budget/GAAP Reconciliation

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

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

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

	<u>General Fund</u>	<u>Exit Lighting Fund</u>	<u>Solid Waste Fund</u>
Budget (cash basis)	\$ 1,232,280	\$ (66,087)	\$ (113,796)
Increase (decrease)			
Net adjustments for revenue accruals	(34,387)	-	2,622
Net adjustments for expenditure accruals	(46,147)	-	(79)
Net adjustments for other financing sources and uses accruals	19,701	-	-
GAAP Basis	<u>\$ 1,171,447</u>	<u>\$ (66,087)</u>	<u>\$ (111,253)</u>

SUPPLEMENTARY INFORMATION

City of Diamondhead, Mississippi
Schedule of Surety Bonds
For the Year Ended September 30, 2018
 UNAUDITED

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

SPECIAL REPORTS

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

Honorable Mayor and City Council
City of Diamondhead, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Diamondhead, Mississippi, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 16, 2019.

Internal Control over Financial Reporting

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

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

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

We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2018-001 and 2018-002.

Compliance and Other Matters

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

We also noted certain immaterial instances of noncompliance which we have reported to the management of the City of Diamondhead, Mississippi, in the Independent Accountant's Report on the Limited Internal Control and Compliance Review Management Report dated July 16, 2019, included within this document.

Purpose of Report

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

Necaise & Company PLLC

Necaise & Company, PLLC
Gulfport, Mississippi
July 16, 2019

Limited Internal Control and Compliance Review Management Report

Honorable Mayor and City Council
City of Diamondhead, Mississippi

In planning and performing our audit of the financial statements of the City of Diamondhead, Mississippi for the year ended September 30, 2018, we considered the City of Diamondhead, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to the City of Diamondhead, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated July 16, 2019, on the financial statements of the City of Diamondhead, Mississippi.

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

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

Administration

1. Credit Card Purchases

Repeat Finding: No

Criteria: MS Code Section 31-7-9(1)(b)

Condition: The City credit card was used to purchase materials and supplies.

Cause: The City has a credit card that should be used for travel purposes only.

Effect: Statutory noncompliance

Recommendation: The City should adopt procedures that restrict use of the credit card. In addition, procurements cards can be issued to City personnel that are responsible for purchasing where checks are not accepted.

Views of Responsible Officials: The City obtained the Hancock Bank Credit Card, May 20, 2014, when it was organized, Agenda Item #2014-3165. The use of Hancock Bank Credit Card was approved by the Council for the purpose of purchasing goods and travel essential to the operations of the City. The City will amend its policy to no longer permit the purchase of goods.

2. Chart of Accounts

Repeat Finding: Yes

Criteria: Office of the State Auditor – Municipal Accounting Guide

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

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

Effect: Noncompliance with State Auditor Guidelines

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

Views of Responsible Officials: The City has been working to convert its Chart of Accounts to be in line with the MS Office of the State Auditor's Guidelines for a year. The City has already created a conversion spreadsheet, mapping the City's current chart of accounts to a chart of accounts in line with the MS State Auditor's Guidelines. However, before this can be implemented, the City's financial software must be modified, so that all GL accounts utilize a nine digit account schema as prescribed by the State Auditor's Office.

3. Docket of Claims

Repeat Finding: No

Criteria: MS Code Section 21-39-7

Condition: The City does not spread its personnel insurance and taxes on the docket of claims.

Cause: The City was approving a balance report that did not reflect actual payments to vendors.

Effect: Statutory noncompliance

Recommendation: The City is required to spread all expenditures of municipal funds on its docket of claims to be approved by the Council.

Views of Responsible Officials: City officials took action to correct this issue once it was discovered. As of the date of this report, all expenditures are approved by the Council via a docket of claims.

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

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

Necaise & Company PLLC

Necaise & Company PLLC
Gulfport, Mississippi
July 16, 2019

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

Honorable Mayor and City Council
City of Diamondhead, Mississippi

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Diamondhead, Mississippi, as of and for the fiscal year ended September 30, 2018, which collectively comprise the City of Diamondhead's basic financial statements and have issued our report thereon dated July 16, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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

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

Necaise & Company PLLC

Necaise & Company PLLC
Gulfport, Mississippi
July 16, 2019

City of Diamondhead, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

Section 1: Summary of Auditor’s Results

Financial Statements:

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

Section 2: Financial Statement Findings

Administration

Significant Deficiency

2018-001

Inventory Balance

Repeat Finding: No

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

Condition: As of September 30, 2018, the City did not have an inventory of field supplies in its Public Works department.

Cause: No internal controls exist to track and/or determine the value of the Public Works supply inventory.

Effect: The statement of net position and balance sheet – governmental funds are misstated.

Recommendation: We recommend the City adopt new policies to track and control field supply inventory and to perform physical inventories semiannually to ensure values are properly reported in the financial statements.

Management’s Response: *Management would like to clarify that this finding is in relation to consumable inventory and not the City’s fixed assets. The City does have a software program that tracks “Fixed” assets, and has internal controls in place to ensure all fixed assets are accounted for, and does a physical count of all “Fixed” assets at least once a year, at year end. The City is creating procedures to begin tracking the use of these consumable supplies within its financial software.*

City of Diamondhead, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

Administration
Significant Deficiency

2018-002 Fiduciary Fund

Repeat Finding: No

Criteria: Trust funds should be fully funded in order to meet future liabilities.

Condition: We noted the Fiduciary fund had a negative cash balance as of September 30, 2018.

Cause: This issue originated in prior years as a result of incorrect accounting adjustments.

Effect: The City's fiduciary fund is underfunded. Trust funds are not properly reserved.

Recommendation: The Comptroller should provide periodic financial reports to the City Manager and City Clerk for review and analysis.

Management's Response: *The negative cash balance was a result of an external audit entry recommendation without the corresponding transfer of cash dating back to 2015. The entry created a payroll accrual/ expense without the corresponding transfer of cash to cover the entry. The subsequent external auditor created an interfund loan to cover the negative cash balance, but the initial matter of the negative cash balance was not addressed. The Comptroller will begin providing the monthly balance sheet in addition to the income statement summary as part of the monthly financial statements that are provided to the City Council and City management. The Mayor and City Council promptly approved the transfer of funds from the general fund to correct the negative cash balance in the fiduciary fund.*

STATISTICAL SECTION

City of Diamondhead, Mississippi
Net Position by Component – Unaudited
Last Two Fiscal Years
(accrual basis of accounting)

Schedule 1

	<u>Fiscal Year</u>	
	<u>2017</u>	<u>2018</u>
Governmental activities		
Invested in capital assets, net of related debt	\$ 61,399,850	\$ 59,798,893
Restricted	138,911	7,072
Unrestricted	<u>4,193,200</u>	<u>5,438,467</u>
Total governmental activities net assets	<u>65,731,961</u>	<u>65,244,432</u>
Primary government		
Invested in capital assets, net of related debt	61,399,850	59,798,893
Restricted	138,911	7,072
Unrestricted	<u>4,193,200</u>	<u>5,438,467</u>
Total primary government net assets	<u>\$ 65,731,961</u>	<u>\$ 65,244,432</u>

City of Diamondhead, Mississippi
Changes in Net Position – Unaudited, Last Two Fiscal Years
(accrual basis of accounting)

Schedule 2

	Fiscal Year	
	<u>2017</u>	<u>2018</u>
Expenses		
Governmental activities:		
General government	\$ 1,395,957	\$ 1,301,258
Public safety	867,809	996,301
Public works	3,888,329	3,842,067
Culture and recreation	-	31,548
Conservation of natural resources	-	14,989
Economic development and assistance	17,800	476
Interest on long-term debt	<u>36,713</u>	<u>29,215</u>
Total governmental activities expenses	<u>6,206,608</u>	<u>6,215,854</u>
Total primary government expenses	<u><u>6,206,608</u></u>	<u><u>6,215,854</u></u>
Program Revenues		
Governmental activities:		
Charges for services:		
General government	544	-
Public safety	238,486	-
Public works	504,130	462,658
Capital grants and contributions	<u>279,590</u>	<u>373,592</u>
Total governmental activities program revenues	<u>1,022,750</u>	<u>836,250</u>
Total primary government program revenues	<u><u>1,022,750</u></u>	<u><u>836,250</u></u>
Net (Expense)/Revenue		
Governmental activities	<u>(5,183,858)</u>	<u>(5,379,604)</u>
Total primary government net expense	<u><u>(5,183,858)</u></u>	<u><u>(5,379,604)</u></u>
General Revenues		
Governmental activities:		
Taxes:		
Property taxes	3,125,564	3,427,584
General sales taxes	573,452	642,502
Road and bridge privilege taxes	101,391	415,878
Franchise taxes	273,746	278,510
Grants and contributions not restricted to specific programs	114,434	-
Unrestricted interest income	26,622	71,490
Miscellaneous	<u>28,075</u>	<u>202,118</u>
Total governmental activities general revenues	<u>4,243,284</u>	<u>5,038,082</u>
Total primary government general revenues	<u><u>4,243,284</u></u>	<u><u>5,038,082</u></u>
Change in Net Position		
Governmental activities	<u>(940,574)</u>	<u>(341,522)</u>
Total primary government	<u><u>\$ (940,574)</u></u>	<u><u>\$ (341,522)</u></u>

City of Diamondhead, Mississippi
Program Revenues by Function/Program – Unaudited
Last Two Fiscal Years
(accrual basis of accounting)

Schedule 3

	Program Revenues	
	<u>2017</u>	<u>2018</u>
Function/Program		
Governmental activities:		
General government	\$ 544	\$ -
Public safety	238,486	-
Public works	783,720	479,163
Culture and recreation	-	342,098
Conservation of natural resources	-	14,989
Subtotal governmental activities	<u>1,022,750</u>	<u>836,250</u>
Total primary government	<u>\$ 1,022,750</u>	<u>\$ 836,250</u>

City of Diamondhead, Mississippi
Fund Balances, Governmental Funds – Unaudited
Last Seven Fiscal Years
(modified accrual basis of accounting)

Schedule 4

	Fiscal Year						
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
General Fund							
Nonspendable	\$ -	\$ -	\$ -	\$ 47,011	\$ 54,243	\$ 53,564	\$ -
Committed	-	-	-	-	-	511,261	-
Restricted	-	49,193	331,876	190,665	85,347	-	-
Unassigned	<u>7,502</u>	<u>1,556,709</u>	<u>2,897,397</u>	<u>3,498,807</u>	<u>4,073,923</u>	<u>3,417,005</u>	<u>5,153,277</u>
Total general fund	<u><u>7,502</u></u>	<u><u>1,605,902</u></u>	<u><u>3,229,273</u></u>	<u><u>3,736,483</u></u>	<u><u>4,213,513</u></u>	<u><u>3,981,830</u></u>	<u><u>5,153,277</u></u>
All Other Governmental Funds							
Restricted	-	-	-	-	-	85,347	7,072
Unassigned, reported in:							
Special Revenue Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,018</u>	<u>-</u>
Total all other governmental funds	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 209,365</u></u>	<u><u>\$ 7,072</u></u>

City of Diamondhead, Mississippi
Changes in Fund Balances, Governmental Funds – Unaudited
Last Seven Fiscal Years
(modified accrual basis of accounting)

Schedule 5

	Fiscal Year						
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenues							
Property taxes	\$ -	\$ 2,856,941	\$ 2,875,338	\$ 3,073,930	\$ 2,945,653	\$ 3,125,564	\$ 3,427,584
General sales taxes	318,013	454,352	486,308	536,462	556,860	573,452	642,502
Franchise taxes	130,541	255,824	298,528	315,122	292,902	273,746	278,510
Road and bridge privilege taxes	-	-	-	-	-	-	136,909
Licenses, commissions and other revenue	1,650	65,801	84,323	132,673	110,877	94,735	100,002
Fines and forfeitures	50	48,240	83,305	109,021	300,306	109,594	87,114
Intergovernmental revenues	-	500,990	448,804	725,429	815,736	641,067	357,848
Charges for services	-	1,192	296,073	447,756	516,727	409,939	462,658
Interest	115	2,905	6,715	9,704	16,531	26,622	71,490
Capital contributions	20,912	59,444,433	222,514	126,331	258,565	-	-
Other revenues	-	3,126	5,028	25,088	4,951	10,257	12,675
Total revenues	<u>471,281</u>	<u>63,633,804</u>	<u>4,806,936</u>	<u>5,501,516</u>	<u>5,819,108</u>	<u>5,264,976</u>	<u>5,577,292</u>
Expenditures							
General government	335,801	1,151,205	856,355	1,108,955	2,192,833	1,324,621	1,207,743
Public safety	51,719	576,167	549,537	617,237	784,851	739,534	957,632
Public works	-	795,198	1,111,963	2,173,893	2,086,901	1,630,004	1,926,132
Culture and recreation	-	-	-	-	-	-	320,009
Conservation of natural resources	-	-	-	-	-	-	14,989
Economic development and assistance	-	112,483	209,539	63,806	100,342	17,800	476
Capital Outlay	176,387	59,597,778	785,344	858,860	-	1,691,556	-
Debt service:							
Principal	-	100,000	-	-	-	-	-
Capital lease	-	-	988,291	129,901	138,360	186,643	135,030
Interest	-	2,445	40,210	41,654	38,791	36,111	29,132
Total expenditures	<u>563,907</u>	<u>62,335,276</u>	<u>4,541,239</u>	<u>4,994,306</u>	<u>5,342,078</u>	<u>5,626,269</u>	<u>4,591,143</u>
Excess of revenues over (under) expenditures	(92,626)	1,298,528	265,697	507,210	477,030	(361,293)	986,149

Continued on Next Page

City of Diamondhead, Mississippi
Changes in Fund Balances, Governmental Funds – Unaudited
Last Seven Fiscal Years
(modified accrual basis of accounting)

Schedule 5

(continued)

Other Financing Sources (Uses)

Short-term capital debt issuance	-	100,000	-	-	-	-	-
Proceeds from capital lease	100,128	199,872	1,286,415	-	-	311,567	-
Sale of assets	-	-	-	-	-	1,201	5,893
Insurance proceeds	-	-	-	-	-	16,617	-
Transfers in	-	-	-	-	-	252,368	50,128
Transfers out	-	-	-	-	-	(252,368)	(73,016)
Total other financing sources (uses)	100,128	299,872	1,286,415	-	-	329,385	(16,995)
Net change in fund balances	\$ 7,502	\$ 1,598,400	\$ 1,552,112	\$ 507,210	\$ 477,030	\$ (31,908)	\$ 969,154
Debt service as a percentage of noncapital expenditures	0.0%	3.9%	37.7%	4.3%	3.4%	6.0%	4.5%

City of Diamondhead, Mississippi
Tax Revenues by Source, Governmental Funds – Unaudited
Last Seven Fiscal Years
(modified accrual basis of accounting)

Schedule 6

<u>Fiscal Year</u>	<u>Property</u>	<u>Sales & Use</u>	<u>Franchise</u>	<u>Road & Bridge</u>	<u>Total</u>
2012	\$ -	\$ 318,013	\$ 130,541	\$ -	\$ 448,554
2013	2,856,941	454,352	255,824	-	3,567,117
2014	2,875,338	486,308	298,528	-	3,660,174
2015	3,073,930	536,462	315,122	-	3,925,514
2016	2,945,653	556,860	292,902	-	3,795,415
2017	3,125,564	573,452	273,746	-	3,972,762
2018	<u>3,427,584</u>	<u>642,502</u>	<u>278,510</u>	<u>136,909</u>	<u>4,485,505</u>
Change					
2013-2018 *	<u>16.6%</u>	<u>29.3%</u>	<u>8.1%</u>	<u>100.0%</u>	<u>20.5%</u>

* We used 2013 as the starting point to calculate the growth in activity because it was the first full year of operation.

City of Diamondhead, Mississippi
Assessed Value and Estimated Actual Value of Taxable Property – Unaudited
Last Seven Fiscal Years

Schedule 7

Fiscal Year	Real Property	Personal Property	Motor Vehicles	Public Utilities	Mobile Homes	Less: Tax-Exempt Property	Total Taxable Assessed Value	Direct Tax Rate
2012	\$ 79,171,343	\$ 116,133	\$ 16,511,800	\$ 132,589	\$ 8,994	\$ 10,311,710	\$ 85,629,149	\$ 34.25
2013	78,118,894	1,175,814	14,465,675	248,413	9,070	10,330,600	83,687,266	34.00
2014	77,675,615	1,660,656	16,088,851	281,743	11,232	10,279,872	85,438,225	34.00
2015	77,289,913	1,674,307	16,362,558	106,878	7,354	10,847,924	84,593,086	34.00
2016	82,209,053	1,645,825	17,372,760	1,645,825	9,332	11,291,061	91,591,734	34.00
2017	82,573,850	1,568,248	18,229,729	103,320	27,001	11,725,924	90,776,224	34.00
2018	83,817,622	1,573,698	18,848,431	106,678	29,407	12,170,791	92,205,045	34.00

Notes: There are five property classes for ad valorem assessment in Mississippi.

- (1) Class I- Residential, owner occupied is assessed at 10% of true value
- (2) Class II- Commercial is assessed at 15% of true value
- (3) Class III- Personal property, except motor vehicles is assessed at 15% of true value
- (4) Class IV- Public service property is assessed at 30% of true value
- (5) Class V- Motor vehicles are assessed at 30% of true value

Source: Hancock County Tax Assessor/Collector

City of Diamondhead, Mississippi
Direct and Overlapping Property Tax Rates – Unaudited
Last Seven Fiscal Years

City of Diamondhead			
Fiscal Year	Diamondhead		
	Operating Millage	Fire Protection District	Total City Millage
2012	-	0.40	0.40
2013	34.00	0.40	34.40
2014	34.00	-	34.00
2015	34.00	-	34.00
2016	34.00	-	34.00
2017	34.00	-	34.00
2018	34.00	-	34.00

Hancock County-Wide												
Fiscal Year	General County	Ad Val Mill	Road Constr. & Maint	County Bond & Interest	Junior Colleges	County			Fire Protect.	Total County	Hancock County Schools	Grand Total Millage
						Garbage Collect	Other					
2012	24.82	1.00	3.26	0.85	2.00	2.00	7.53	0.25	41.71	40.53	82.64	
2013	25.53	1.00	3.26	5.26	2.00		9.67	0.25	46.97	35.27	116.64	
2014	27.19	1.00	3.26	10.88	2.00	1.80	9.65	0.25	56.03	30.91	120.94	
2015	27.28	1.00	3.26	11.13	2.00		9.10	0.25	54.02	33.35	121.37	
2016	29.28	1.00	3.26	11.72	2.00	2.57	9.30	0.25	59.38	32.93	126.31	
2017	32.25	1.00	3.26	11.05	2.00	1.93	6.92	0.25	58.66	36.13	128.79	
2018	32.25	1.00	3.26	11.05	2.00	1.93	6.92	0.25	58.66	36.13	128.79	

Notes:

Rates are per \$1,000 of assessed value.

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

Source:

MS Department of Revenue – Annual Statistics

City of Diamondhead, Mississippi
Principal Property Tax Payers – Unaudited
Current Year and Seven Years Ago

Schedule 9

Taxpayer (DBA)	2018			2012		
	Taxable Assessed Value	Rank	Percentage of Total Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Assessed Value
Diamondhead Nursing Facility	\$ 712,651	1	0.77%	\$ 567,527	1	0.66%
Rouse Land Company	551,494	2	0.60%	483,921	2	0.57%
People's Bank Biloxi	543,458	3	0.59%	-		
Elliot Bay Healthcare/Realty LLC	485,846	4	0.53%	-		
Mississippi Gaming Corporation	479,700	5	0.52%	-		
Diamondhead Commercial Development	381,548	6	0.41%	377,880	5	0.44%
Diamondhead Resorts	379,652	7	0.41%	396,980	4	0.46%
Purcell Corporation (521 Parcels)	322,090	8	0.35%	-		
Gem City Properties LLC	221,603	9	0.24%	-		
CTV Development	200,358	10	0.22%	190,374	7	0.22%
Diamondhead LLC	170,599	11	0.19%	159,304	10	0.19%
TW Holdings LLC	168,769	12	0.18%	-		
Doctor's Properties, LLC	-			415,334	3	0.49%
Triple Diamonds	-			308,822	6	0.36%
Universal Storage	-			164,438	8	0.19%
Diamondhead, Inc.	-			160,835	9	0.19%
Total	4,617,768		5.01%	3,225,415		3.77%
Other Taxpayers	87,587,277		94.99%	82,403,734		96.23%
Total All Taxpayers	\$ 92,205,045		100.00%	\$ 85,629,149		100.00%

Source: Hancock County Tax Assessor/Collector

City of Diamondhead, Mississippi
Property Tax Levies and Collections – Unaudited
Last Seven Fiscal Years

Schedule 10

Calendar Year Ended September 30,	Taxes Levied for the Calendar Year	Collected within the Calendar Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2012	\$ 2,968,596	\$ 2,856,941	96.24%	\$ 57,161	\$ 2,914,102	98.16%
2013	2,845,367	2,783,053	97.81%	52,556	2,835,609	99.66%
2014	2,904,900	2,828,119	97.36%	9,070	2,837,189	97.67%
2015	2,876,165	2,787,430	96.91%	11,546	2,798,976	97.32%
2016	3,058,147	2,988,406	97.72%	18,588	3,006,994	98.33%
2017	3,086,392	3,045,532	98.68%	583	3,046,116	98.70%
2018	3,134,972	-	0.00%	-	-	0.00%

Notes:

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

City of Diamondhead, Mississippi
Taxable Sales by Category – Unaudited
Last Seven Years

Schedule 11

	Year Ended June 30,						
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Accommodations and Food Service	\$ 9,254,270	\$ 27,195,550	\$ 10,341,755	\$ 11,754,050	\$ 11,675,012	\$ 11,981,357	\$ 12,628,249
Admin & Support, Waste and Remediation	-	-	-	-	-	387,370	489,393
Arts, Entertainment & Recreation	-	-	741,939	677,252	741,830	717,040	821,558
Construction	337,245	882,104	162,360	374,931	421,505	439,682	1,033,586
Health Care & Social Services	-	-	-	-	2,474	737	250
Other Services (Except Public Admin)	1,009,045	3,409,942	-	558,650	1,076,248	982,512	933,147
Manufacturing	-	-	-	-	-	253,125	675,532
Real Estate, Rental & Leasing	-	-	-	340,130	238,354	-	-
Retail Trade	576,595	1,615,551	22,199,057	23,969,722	24,719,102	25,667,066	26,822,194
Wholesale Trade	-	144,444	22,272	461,755	400,882	654,716	282,523
Categories Not Reported Separately *	-	-	3,178,472	2,325,814	3,435,230	2,666,916	2,882,363
Total	<u>\$ 11,177,155</u>	<u>\$ 33,247,591</u>	<u>\$ 36,645,855</u>	<u>\$ 40,462,304</u>	<u>\$ 42,710,637</u>	<u>\$ 43,750,521</u>	<u>\$ 46,568,795</u>
State sales tax rate	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%

* Line items with fewer than 4 activities were not reported separately on this report

Notes:

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

Source: Mississippi Department of Revenue – Annual Statistics

City of Diamondhead, Mississippi
Direct and Overlapping Sales Tax Rates – Unaudited
Last Seven Fiscal Years

Schedule 12

Fiscal Year	State Sales Tax Rate	County Direct Rate	City Direct Rate	Total Direct Sales Tax Rate
2012	7%	0%	0%	7%
2013	7%	0%	0%	7%
2014	7%	0%	0%	7%
2015	7%	0%	0%	7%
2016	7%	0%	0%	7%
2017	7%	0%	0%	7%
2018	7%	0%	0%	7%

City of Diamondhead, Mississippi
Ratios of Outstanding Debt by Type – Unaudited
Last Seven Fiscal Years

Schedule 13

<u>Fiscal Year</u>	<u>Governmental Activities</u> <u>Capital Leases</u>	<u>Total Primary Government</u>	<u>Percentage of Personal Income</u>	<u>Per Capita</u>
2012	100,128	100,128	38.0%	11,770
2013	300,000	300,000	111.6%	34,912
2014	1,526,873	1,526,873	556.6%	175,927
2015	1,396,972	1,396,972	499.2%	159,363
2016	1,266,505	1,266,505	443.6%	143,043
2017	1,383,537	1,383,537	475.0%	154,706
2018	1,248,507	1,248,507	420.2%	138,232

Notes:

Details of the City’s outstanding debt can be found in the notes to the financial statements.

Demographic and economic data can be found on pages 67-68 of this report.

City of Diamondhead, Mississippi
Demographic and Economic Statistics – Unaudited
Last Seven Calendar Years

Schedule 14

Calendar Year	Population	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
2012	8,507	\$ 263,606	\$ 30,987	48.5	5,119	8.5%
2013	8,593	268,935	31,297	48.5	5,119	7.9%
2014	8,679	274,343	31,610	50.2	4,807	4.1%
2015	8,766	279,863	31,926	48.9	4,829	5.6%
2016	8,854	285,497	32,245	50.3	5,229	7.6%
2017	8,943	291,247	32,567	49.9	5,106	8.0%
2018	9,032	297,090	32,893	49.9	5,106	8.0%

Data Sources and Notes:

September 30 population estimates are derived from the U.S. Census Bureau and was estimated by using the 2010 census data adjusted by 1% annually.

Personal income calculated by multiplying per capita personal income by total population divided by 1,000.

Per capita personal income was derived from the U.S. Census Bureau 2010 census data.

Unemployment rate was derived from the U.S. Census Bureau 2010 census data.

Median age was derived from the U.S. Census Bureau 2010 census data.

Education information not available.

**City of Diamondhead, Mississippi
Principal Employers – Unaudited
Current Year and Seven Years Ago**

Schedule 15

Employer	2018			2013		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Woodland Village Nursing Home	132	1	17.91%	160	1	20.78%
Diamondhead Country Club	73	2	9.91%	126	2	16.36%
Rouse's Supermarket	60	3	8.14%	63	3	8.18%
City of Diamondhead	37	4	5.02%	30	5	3.90%
Red Zone	29	5	3.93%	21	7	2.73%
Diamondhead Water & Sewer	23	6	3.12%	31	4	4.03%
Nvision	22	7	2.99%	-	-	-
Waffle House	20	8	2.71%	20	8	2.60%
Diamondhead Fire Department	18	9	2.44%	-	-	-
Park Ten Lanes	17	10	2.31%	22	6	2.86%
Memorial Physicians Clinic	-	-	-	15	9	1.95%
Goody's	-	-	-	10	10	1.30%
Total	431		58.48%	498		64.68%
Other Employers	306		41.52%	272		35.32%
Total Employment	737		100.00%	770		100.00%

Source:

Total employment estimate information obtained from data collected from Privilege Licenses.

Full-time-Equivalent City Government Employees by Function/Program – Unaudited
Last Seven Fiscal Years

<u>Function/Program</u>	<u>Full-time- Equivalent Employees</u>						
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
General Government							
Council Members	6	6	6	6	6	6	6
City Management	1	1	1	1	1	1	1
Administrative	-	1	1	1	2	2	2
Finance	1	3	3	3	2	2	2
Planning & Building	-	1	2	2	2	3	3
Judicial	1	2	2	2	2	2	2
Other	-	-	1	1	2	3	2
Public Works							
Public Works Management	-	1	1	1	1	1	1
Supervisors	-	2	2	2	2	2	2
Maintenance	-	9	12	14	14	16	16
	<u>9</u>	<u>26</u>	<u>31</u>	<u>33</u>	<u>34</u>	<u>38</u>	<u>37</u>

Notes:

Police protection was provided by Hancock County Sheriff's Department through an inter-local agreement.

City of Diamondhead, Mississippi
Operating Indicators by Function/Program – Unaudited
Last Seven Fiscal Years

Schedule 17

Function/Program	Fiscal Year						
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
General Government							
Building Permits issued	-	-	149	561	672	671	819
Building Inspections Conducted	-	-	686	1,346	1,384	1,364	1,374
Police							
Physical Arrests	-	10	43	96	213	188	136
Parking/Traffic Violations	208	547	270	268	763	738	565
Other Public Works							
Street Resurfacing (in Miles)	-	-	7	-	5	0	0
Potholes / Street Repair	-	-	-	21	63	27	58