CITY OF DIAMONDHEAD, MISSISSIPPI

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2014

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INTRODUCTORY SECTION

CITY OF DIAMONDHEAD, MISSISSIPPI
LISTING OF CITY OFFICIALS
SEPTEMBER 30, 2014

ELECTED OFFICIALS

Mayor	Thomas E. Schafer, IV
Councilman – Ward 1	Joseph G. Lopez
Councilman – Ward 2	Blaine G. LaFountain
Councilman – Ward 3	Thomas A. Sislow
Councilman – Ward 4	Ron Rech
Councilman – At Large	Ernie Knobloch

APPOINTED OFFICIAL

City Manager	Clovis Reed
City Clerk	Kristin Ventura
City Attorney	Sean Tindell

INDEPENDENT AUDITORS' REPORT

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

AVL WEALTHCARE, LLC
Wealth Management

INDEPENDENT AUDITORS' REPORT

September 25, 2015

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

We have audited the accompanying financial statements of the governmental activities of the City of Diamondhead, Mississippi, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

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304 N. Vardaman Street | P.O. Box 749 | Wiggins, MS 39577 | (601) 928-4416 | Fax (601) 928-4417 | E-Mail: info@avlcpa.com | www.avlcpa.com

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City of Diamondhead, Mississippi, as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 - 11 and 35 – 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Diamondhead, Mississippi's basic financial statements. The introductory section on page 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

In addition, the State of Mississippi requires that municipalities submit a schedule of surety bonds maintained for city personnel in compliance with § 21-17-5 of Mississippi Code of 1972. This schedule has been presented on page 38. This schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of surety bonds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Honorable Mayor and City Council
City of Diamondhead
September 25, 2015

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2015, on our consideration of the City of Diamondhead's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Diamondhead's internal control over financial reporting and compliance.

Alexander, Van Loon, Sloan, Levens + Favre

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF DIAMONDHEAD, MISSISSIPPI
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Diamondhead, MS 39525
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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2014

Introduction

The following Management's Discussion and Analysis section of the City of Diamondhead, Mississippi's (the City) activities and financial performance presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal year ended September 30, 2014 and restated financial activities ended September 30, 2013. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow.

Current Year Financial Highlights

- During the year ended September 30, 2014, prior period adjustments were recorded. The corrections include adjustments to record property tax receivable, prepaid insurance, a capital lease and related principal payment made, donated land, and a correction to depreciation and asset balances.

- The total assets of the City exceeded total liabilities for the fiscal year ended September 30, 2014 by $66,975,000 (net position). Of this amount $2,928,041 (unrestricted net position), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

- The City's General Fund's fund balance, which represents the difference between assets minus liabilities, decreased by $128,929 for the period ended September 30, 2014.

- General revenues amounted to $4,113,914 or 82% of total revenues due primarily to property taxes, sales taxes and State and Local shared revenue. Program revenues amounted to $721,865 or 18% of total revenues.

- Capital Assets were purchased in the amount of $407,466 in 2014 due primarily to the purchase of equipment and vehicles for Public Works and the Police Department. Along with the additional City Hall lease purchase for $137,086, a capital asset worth $2,114 was contributed from a private donor and the net value of discounted price paid versus fair market value of $220,400 for three Humvee's. Construction in Progress was $18,278. Depreciation expense recorded for year ended September 30, 214 was $2,207,489.

- The City's total capital assets increased by approximately $777,000 or 1%; going from $68.3 million in 2013 to $69.1 million in 2014. Much of this increase is related to the acquisition of equipment, vehicles, and City Hall.

- As a result of the purchase of City Hall and additional equipment/vehicles, $1,293,026 and $243,003, respectively, was the overall outstanding debt owed to Hancock Bank as of September 30, 2014.

Current Year Fund Highlights

- *General Fund* – This fund is used for the general operations of the City. Total General Fund revenues of $4,806,936 and expenditures of $4,541,239 include $1,028,501 in principal and interest payments for capital leases and $137,086 for the acquisition of City Hall. General Fund operations (excluding principal and interest payments and the acquisition of City Hall) resulted in $4,806,936 in revenues and $3,375,652 in expenditures for 2014.

Using this Annual Financial Report

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

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

In addition, this report also contains other supplementary information.

Reporting the City of Diamondhead as a Whole

Statement of Net Position and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2014?" The Statement of Net Position and the Statement of Activities answer this question.

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

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

In the Statement of Net Position and the Statement of Activities, the City's activities are reported as governmental activities, which include all of the City's services including general government,

public safety, public works, solid waste, economic development, debt service and capital projects. The City of Diamondhead has no component units.

Governmental Funds

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

Fund Financial Statements

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

The City of Diamondhead as a Whole

Recall that the Statement of Net Position and Statement of Activities look at the City as a whole. Table 1 and Table 2 provide a summary of the City's net position and activities for the fiscal year ended September 30, 2014 and restated fiscal year ended September 30, 2013.

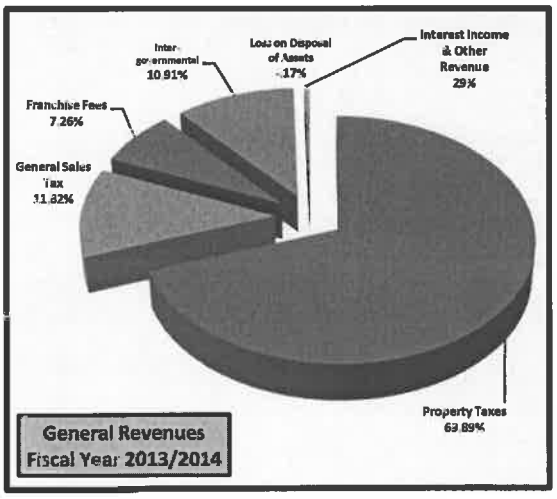
TABLE 1
City of Diamondhead, Mississippi
Condensed Statement of Net Position
September 30, 2014 and 2013 (Restated)

	Governmental Activities		
	2014	2013 (Restated)	Change
Assets			
Current assets	$ 3,493,756	1,799,005	1,694,751
Capital assets	65,241,957	66,670,909	(1,428,952)
Total Assets	$ 68,735,713	68,469,914	265,799
Liabilities			
Current liabilities	$ 360,384	180,444	179,940
Long-term liabilities	1,400,329	1,185,541	214,788
Total Liabilities	$ 1,760,713	1,365,985	394,728
Net position			
Invested in capital assets, net of related deb	$ 63,715,083	65,442,159	(1,727,076)
Restricted for:			
Capital Projects	$ 310,376	-	310,376
Fire Protection millage assessment	21,500	-	21,500
Grants	-	49,193	(49,193)
Unrestricted	2,928,041	1,612,577	1,315,464
Total Net Position	$ 66,975,000	67,103,929	(128,929)

TABLE 2
City of Diamondhead, Mississippi
Condensed Statement of Activities
For the Fiscal Year ended September 30, 2014 and
September 30, 2013 (Restated)

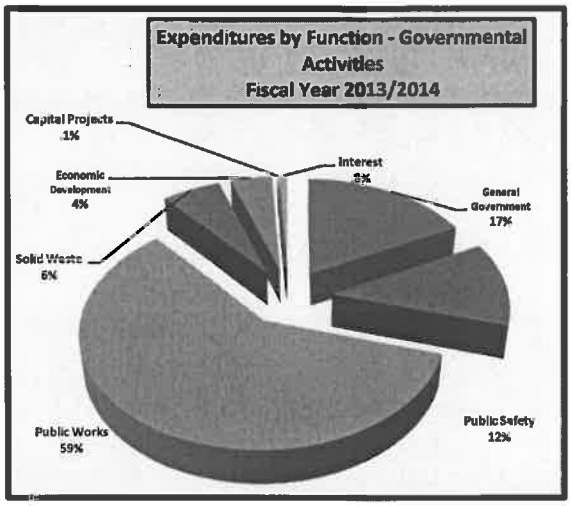
	Governmental Activities		
	2014	2013 (Restated)	Change
Revenues:			
Program revenues:			
Charges for services	$ 492,951	115,233	377,718
Operating grants and contributions	-	37,098	(37,098)
Capital grants and contributions	228,914	66,874,138	(66,645,224)
Total program revenues	721,865	67,026,469	(66,304,604)
General revenues	4,113,914	4,044,017	69,897
Total revenues	$ 4,835,779	71,070,486	(66,234,707)
Expenses:			
General government	$ 861,541	284,781	576,760
Public safety	606,411	604,749	1,662
Public works	2,949,328	3,043,832	(94,504)
Solid Waste	291,322	-	291,322
Economic development	210,767	113,188	97,579
Capital Projects	5,129	-	5,129
Interest on long-term debt	40,210	2,445	37,765
Total expenses	$ 4,964,708	4,048,995	915,713
Increase (Decrease) in net position	(128,929)	67,021,491	(67,150,420)
Net position - beginning as restated	67,103,929	82,438	67,021,491
Net position - ending	$ 66,975,000	67,103,929	(128,929)

Governmental Activities



In fiscal year 2014, governmental activities decreased the City's net position by $128,929. Capital asset contributions were recorded in 2014 for the amount of fair value (less cash payments) of equipment and vehicles in the amount of $222,514. Other capital grants for this period totaled $6,400. The City continues to seek grants and assistance from various other governmental agencies to help provide support for the City's various responsibilities to its citizens. General revenues such as property, franchise, and privilege taxes are not shown by program, but are used to support program activities citywide. Property taxes of $2,875,338 provided the most funding of the general revenues of the City. Sales taxes of $486,308 reflect a steady growth. The City has negotiated franchise agreements with utility companies that generated $298,528 for the year.

Income from intergovernmental of $448,804 reflects shared local and shared sources including homestead exemption reimbursement and pro-rata road and bridge taxes.



The public works function is the largest expense for the City during the year ended September 30, 2014. This is largely due to the depreciation expense recorded on infrastructure for the period. However, capital project expenditures increased the cost of general government was 17% while economic development was less than 1% of total expenses.

Public safety expenses make up 12% of total expenses and primarily consist of payments made to Hancock County under an interlocal agreement for the County to provide police protection within the City's municipal borders.

Financial Analysis of the City's Funds

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

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

of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

General Fund

The General Fund, the chief operating fund of the City, had an unassigned fund balance of $2,897,397 at the end of fiscal year ended September 30, 2014. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 63% of total fund expenditures at the close of year.

Overall, the General Fund's performance resulted in revenues exceeding expenditures for the fiscal year ended September 30, 2014 by $1,552,112. In an effort to build reserves to provide funding for future capital projects, including streets and drainage maintenance, the City has attempted to operate at the lowest possible cost to its citizens by relying strongly on volunteers and seeking other funding sources. There will be continued efforts to make improvements to the City's infrastructure.

General Fund Budgeting Highlights

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

During the course of 2014, the City amended its general fund budget. All recommendations for a budget change come from the City Clerk to the Council for approval. State law does not allow budget changes that modify functional levels of budget amounts within a department without council approval. With the General Fund supporting many of our major activities, such as our police and court departments, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments.

Capital Assets and Debt Administration

Capital Assets

The City's capital assets as of September 30, 2014 and 2013 (Restated) totaled $65,241,957 and $66,670,909, respectively (net of accumulation depreciation). Capital assets include land, streets, vehicles, machinery, equipment, furniture and fixtures.

During the year, the City received approximately $220,400 in vehicles and $2,114 in other equipment from various organizations to assist City employees with performing services for the City's citizens. Other additions to capital assets were purchased in the amount of $562,830 using funds provided mostly by grants and capital leases. Depreciation expense for the year totaled $2,207,489. Detailed information can be found in the notes to the financial statements on page 27 of this report.

Debt Administration

At the end of fiscal years 2014 and 2013 (Restated), the City had capital lease obligations of $1,536,029 and $1,228,750, respectively. As of fiscal year ended September 30, 2014, accrued

compensated absences totaled $7,767. Detailed information concerning the City's debt can be found on pages 28 - 29 of this report.

Current Financial Related Activities and Economic Climate

Challenges facing the City at this time are great; however, the Council recognizes its responsibility to use sound fiscal judgment when dealing with issues that arise. The City is looking for ways to improve citizen services with the least amount of cost of government. At present, the City is diligently seeking various grant funding opportunities. Volunteers are also utilized to reduce costs. We welcome new applicants and encourage everyone to volunteer their unique talents. Our City is stronger as a result of the many who continue to donate their time and skills.

The City has adopted a 25-year Comprehensive Plan and Zoning Ordinance to fulfill our incorporation goal of enacting municipal planning and zoning and enabling building inspections and code enforcement. A Planning and Zoning Commission of seven citizens, all volunteers serving three-year staggered terms, are appointed by the city Council.

As a cost savings measure to the City, the Council decided not to join the Public Retirement System. At the time of our decision, the employee contribution was 8% and the employer's contribution was 12%. Today, the employee contribution is 9% and the employer's contribution is 15.75%. It is feared that the employer contributions could grow even higher in the future. The Council chose to adopt instead a retirement plan that would match employee's voluntary contributions up to 8%, not to exceed $5,000 per year. This decision not only saved the City money, now and in the future, it also has allowed the City to recruit and hire some of the Gulf Coast's top experienced former municipal employees at a fraction of the salary that it would have had to pay for such experience personnel otherwise.

We are now participating in the Multi-Jurisdictional Hancock County Hazard Mitigation Program which will allow the City to make some improvements to the new city hall in order to meet storm requirements and to locate an Emergency Management Center in our city hall. We are also exploring options that will make our community less vulnerable to future disaster storm surges.

We are a young city; nonetheless, we are very vibrant and dedicated to our mission to serving the citizens of Diamondhead. We have accomplished much in our first three years, and we have a long way to go before we catch up to our fellow municipalities. We are striving to learn from others and to adopt the best proven practices. We want to remain one of the safest communities and cleanest communities on the Gulf Coast. We have a residential area that is second to none; we will strive to ensure that our business area measures up to the residential standard.

Contact the City's Financial Management

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

Kristin Ventura, City Clerk
City of Diamondhead, Mississippi
5000 Diamondhead Circle
Diamondhead, MS 39525
(228) 222-4626

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Exhibit A

CITY OF DIAMONDHEAD, MISSISSIPPI
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	Governmental Activities
ASSETS	
Cash	$ 2,829,981
Receivables, net	150,529
Due from other governments	116,407
Prepaid items	64,963
Restricted assets:	
Cash	331,876
Capital assets	
Nondepreciable assets	7,415,792
Depreciable assets, net of depreciation	57,826,165
Total capital assets	65,241,957
Total assets	68,735,713
LIABILITIES	
Accounts payable	158,974
Accrued liabilities	57,943
Long-term liabilities:	
Due within one year	
Capital leases	129,901
Accrued interest	9,155
Compensated absences	4,411
Due in more than one year	
Capital leases	1,396,973
Compensated absences	3,356
Total liabilities	1,760,713
NET POSITION	
Invested in capital assets, net of related debt	63,715,083
Restricted for:	
Capital projects	310,376
Fire protection millage assessment	21,500
Unrestricted	2,928,041
Total net position	$ 66,975,000

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

Exhibit B

CITY OF DIAMONDHEAD, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Total Governmental Activities
Primary government					
Governmental Activities					
General government	$ 861,541	$ 449	$ -	$ 228,914	$ (632,178)
Public safety	606,411	83,305	-	-	(523,106)
Public works	2,949,328	-	-	-	(2,949,328)
Solid waste	291,322	295,624	-	-	4,302
Economic development	210,767	113,573	-	-	(97,194)
Capital projects	5,129	-	-	-	(5,129)
Interest expense	40,210	-	-	-	(40,210)
Total governmental activities	$ 4,964,708	$ 492,951	$ -	$ 228,914	(4,242,843)
General revenues:					
Taxes:					
Property taxes					2,875,338
General sales taxes					486,308
Franchise fees					298,528
Intergovernmental					
State and local shared revenue					448,804
Interest income					6,715
Other revenue					5,028
Loss on disposal of assets					(6,807)
Total general revenues					4,113,914
Change in net position					(128,929)
Net position - beginning, as previously reported					58,796,987
Prior period adjustments					8,306,942
Net position - beginning, as restated					67,103,929
Net position - ending					$ 66,975,000

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

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

Exhibit C

CITY OF DIAMONDHEAD, MISSISSIPPI
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2014

	General Fund
ASSETS	
Cash	$ 2,829,981
Receivables, net	150,529
Due from other governments	116,407
Prepaid items	64,963
Restricted assets:	
Cash	331,876
Total assets	3,493,756
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	158,977
Accrued liabilities	69,856
Deferred revenue	35,650
Total liabilities	264,483
Fund balance:	
Restricted for:	
Capital projects	310,376
Fire protection millage assessment	21,500
Unassigned	2,897,397
Total fund balance	3,229,273
Total liabilities and fund balance	$ 3,493,756

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

Exhibit C-1

CITY OF DIAMONDHEAD, MISSISSIPPI
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

Total fund balance, governmental fund	$	3,229,273
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		65,241,957
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		35,650
Some liabilities, (such as Notes Payable, Capital Lease Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		(1,530,230)
Compensated absences that are not liquidated with expendable available financial resources are not included in the fund financial statement, but are reported with the governmental activities of the Statement of Net Position.		(1,650)
Net Position of Governmental Activities in the Statement of Net Position (Exhibit A)	$	66,975,000

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

Exhibit D

CITY OF DIAMONDHEAD, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	General Fund
REVENUES	
Property taxes	$ 2,875,338
Sales tax	486,308
Fees and fines	83,305
Licenses and permits	84,323
Franchise fees	298,528
Intergovernmental	448,804
Solid waste	295,624
Charges for services	449
Investment earnings	6,715
Miscellaneous	5,028
Capital contributions	222,514
Total revenues	4,806,936
EXPENDITURES	
Current:	
General government	856,355
Public safety	549,537
Public works	820,641
Solid waste	291,322
Economic development	209,539
Debt service:	
Principal	988,291
Interest and other charges	40,210
Capital outlay	785,344
Total expenditures	4,541,239
Excess of revenues over expenditures	265,697
OTHER FINANCING SOURCES	
Proceeds from long-term debt, net	1,286,415
Total other financing sources and uses	1,286,415
Net change in fund balance	1,552,112
Fund balance - beginning, as previously reported	1,605,902
Prior period adjustments	71,259
Fund balance - beginning, as restated	1,677,161
Fund balance - ending	$ 3,229,273

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

Exhibit D-1

CITY OF DIAMONDHEAD, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Net change in fund balance - total governmental fund:	$	1,552,112
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which depreciation ($2,207,489) exceeded capital outlays ($785,344) in the current period.		(1,422,145)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.		35,650
Governmental funds report capital lease proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of capital lease principal as an expenditure, in contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.		(298,124)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.		3,578
Change in net position of governmental activities (Exhibit B)	$	(128,929)

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Introduction

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

Since the City is newly established, many municipal services are provided through interlocal contracts with independent entities. Police services are provided by the Hancock County Sheriff Department; fire protection services are provided by the Diamondhead Fire District; and water and sewer services are provided by Diamondhead Water and Sewer District. All of these entities have separate elected and/or appointed boards and provide services to residents, generally within the geographic boundaries of the City. They are excluded from the reporting entity because the City does not have the ability to exercise influence or control over their daily operations, approve budgets or provide funding.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2014.

II. Financial Reporting Entity

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

III. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements

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

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

(A) Basis of Accounting

The City complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities, and as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. Proprietary funds, if applicable, apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of the related cash flows. Shared revenues are recognized when the provider recognizes the liability to the City. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been satisfied.

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(B) Fund Type and Major Fund

The City reports the following major governmental fund:

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

(C) Use of Estimates

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

V. Assets, Liabilities, and Net Position or Equity

(A) Cash and Cash Equivalents

The City's cash and cash equivalents are primarily considered to be cash on hand and amounts held in demand deposits. For purposes of the statement of cash flows, if applicable, short-term investments with a maturity date within three months of the date acquired by the City, if any, are considered to be cash equivalents.

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

(B) Receivables

Court fines receivable is shown net of an estimated allowance for uncollectibles. The estimated uncollectible allowance amount is based on the aging of the receivables, historical collection experience and other relevant circumstances. As of September 30, 2014, the allowance for uncollectible court fines is $38,359.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(C) Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2014, are recorded as prepaid items. In governmental funds, reported prepaid items are equally offset by nonspendable fund balance amounts, which indicate they do not constitute "available spendable resources" even though they are a component of net current assets. The net change in nonspendable fund balances is not presented because the combined statement of revenues, expenditures, and changes in fund balances reflects the changes in total fund balances rather than just the spendable and nonspendable fund balances.

(D) Restricted Assets

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

(E) Capital Assets

Capital assets, which include property, plant, equipment, and current infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), net of depreciation, are reported in the government-wide financial statements. The City generally capitalizes assets with an initial, individual cost of more than $1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Major outlays for capital assets and improvements are capitalized as projects are constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Capital assets include significant amounts of donated infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(F) Long-term Liabilities

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

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

(G) Compensated Absences

The City's policy on vacation leave allows employees to accrue vacation time based on a certain accrual rate per pay period once that employee has had one year of continuous service for the City. There are no restrictions on when the employees are allowed to take their vacation time. Retiring and voluntarily terminating employees can be paid for up to 15 days of unused vacation. It is the City's policy that all unused sick leave is forfeited upon termination, retirement, or layoff. There is no liability for unpaid accumulated sick leave since sick pay is not paid upon termination of employment. Employees can accrue up to 40 hours per year in years 1-5, 80 hours per year in years 6-10, and 120 hours per year in year 11 and beyond. Employees may roll over up to three most recent years of unused vacation time. All accumulated vacation is accrued when incurred in government-wide financial statements. In fund financial statements, governmental funds report the compensated absence 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, 2014. The resulting liability is then increased to include social security that the City is required to pay upon liquidation of the liability.

(H) Fund Equity

As of September 30, 2014, fund balances are classified as follows:

> *Nonspendable* – Amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.
>
> *Restricted* – Amounts that can be spent only for specific purposes because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
>
> *Committed* – Amounts that can be used only for specific purposes determined by a formal action of the City Council. This includes the budget reserve account. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(H) Fund Equity (Continued)

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

Unassigned – All amounts not included in other spendable classifications.

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

(I) Net Position

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

(J) Capital Contributions

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

VI. Stewardship, Compliance and Accountability

A. Budgetary and Budgetary Accounting

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

1. Prior to August 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

3. No later than September 15, the budget is legally enacted through passage of a resolution.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

VI. Stewardship, Compliance and Accountability (Continued)

A. Budgetary and Budgetary Accounting (Continued)

4. Formal budgetary integration is employed as a management control device during the year for the governmental fund.

5. Budgets for the governmental fund is adopted on a cash basis except for expenditures which include those paid within 30 days of the fiscal year end as required by state statute.

B. Budgetary – GAAP Reporting Reconciliations

Annual budgets are adopted for the general governmental fund. Budgetary comparisons, presented in the required supplementary information section of this report, are on the budgetary basis. Certain adjustments are necessary to compare actual data on a GAAP versus budget basis. These reconciling adjustments can be found in the Budgetary Comparison Schedule.

NOTE 2: CASH

A summary of cash at September 30, 2014 is as follows:

	Cash on Hand	Pooled Cash Deposits	Total
Governmental Activities			
General Fund	$ 500	$3,161,357	$3,161,857

The City maintained the following restricted assets as of September 30, 2014:

Governmental Activities	
Cash	
Restricted for fire protection millage assessment	$ 21,500
Restricted for capital projects	310,376
Total restricted assets - governmental activities	$331,876

Custodial Credit Risk - Deposits.

Custodial credit risk is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. The collateral is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Miss.

NOTE 2: CASH (Continued)

Code Ann. (1972), §27-105-5. Under this program, the City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

At September 30, 2014, deposits (including restricted deposits) are as follows:

	Bank Balance	Carrying Amount
Cash	$3,171,444	$3,161,857

NOTE 3: RECEIVABLES

Receivables at September 30, 2014, consist of the following:

	Amount
Property taxes	$ 40,051
Franchise taxes	83,257
Court fines	53,291
Solid waste fees	11,882
Other	407
Total receivables, gross	188,888
Less allowance for doubtful receivables	(38,359)
Total receivables, net	$150,529

Property Taxes

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

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

NOTE 3: RECEIVABLES (Continued)

Property Taxes (Continued)

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

The rates are expressed in terms of mills. The combined tax rate to finance general government services, including the payment of principal and interest on long-term debt and other purposes for the year ended September 30, 2014, was 34 mills or $34.00 per $1,000 of assessed valuation. A summary of the assessed valuations and tax levies of the City for the year ended September 30, 2014, have been provided below.

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

	2014	2013
General Fund	34.00	34.00
Total levy	34.00	34.00

NOTE 4: DUE FROM OTHER GOVERNMENTS

Due from other governments at September 30, 2014, consists of the following:

	Amount
Grants	$ 6,400
Hancock County, ABC permit fees	29,250
State of Mississippi, sales tax diversion	80,757
Total due from other governments	$ 116,407

Sales Tax

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Diamondhead) back to the City monthly. Sales tax revenue was $486,308 for the year ended September 30, 2014. Sales tax receivable is included in due from other governments on the statement of net position and balance sheet – governmental funds. Sales tax receivable consists of taxes collected by the State for August and September 2014 and not received by the City until October and November 2014.

NOTE 5: CAPITAL ASSETS

The following is a summary of capital assets activity for the year ended September 30, 2014:

	Balance October 1, 2013 (restated)	Additions	Disposals	Balance September 30, 2014
Governmental Activities				
Capital assets, not being depreciated:				
Land	$ 7,397,514	$ -	$ -	$ 7,397,514
Construction in progress	-	18,278	-	18,278
Total capital assets, not being depreciated	7,397,514	18,278	-	7,415,792
Capital assets, being depreciated:				
Buildings and improvements	34,095	-	-	34,095
Machinery and equipment	285,070	463,384	(2,300)	746,154
Infrastructure	59,285,985	166,596	-	59,452,581
Assets under capital leases	1,307,487	137,086	(5,927)	1,438,646
Total capital assets, being depreciated	60,912,637	767,066	(8,227)	61,671,476
Less accumulated depreciation for:				
Buildings and improvements	(511)	(682)	-	(1,193)
Machinery and equipment	(29,256)	(58,780)	353	(87,683)
Infrastructure	(1,556,257)	(2,081,693)	-	(3,637,950)
Assets under capital leases	(53,218)	(66,334)	1,067	(118,485)
Total accumulated depreciation	(1,639,242)	(2,207,489)	1,420	(3,845,311)
Total capital assets, being depreciated, net	59,273,395	(1,440,423)	(6,807)	57,826,165
Total governmental activities capital assets, net	$66,670,909	$(1,422,145)	$ (6,807)	$65,241,957

Assets under capital leases include buildings, grounds, and equipment that were acquired through capital leases financing with a local financial institution (see Note 6 for additional information). As of September 30, 2014, these capitalized assets and the related accumulated depreciation are as follows:

Asset	Capitalized Amount	Accumulated Depreciation
Buildings and grounds - City Hall	$1,145,698	$ 28,475
Equipment	293,023	90,010
Total	$1,438,721	$ 118,485

Depreciation expense associated with the assets under capital leases in fiscal year 2014 totaled $69,936 and is included in the statement of activities, general government, public safety, and public works expenses.

NOTE 5: CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following governmental functions:

Governmental Activities	
General government	$ 24,477
Public safety	56,874
Public works	2,125,133
Economic development	1,005
Total governmental activities depreciation expense	$2,207,489

NOTE 6: LONG-TERM DEBT

Changes in long-term debt during the year ended September 30, 2014 are as follows:

	Balance October 1, 2013	Additions	Principal Payments/ Reductions	Balance September 30, 2014	Due within One Year
Capital lease payable	$ 928,750	$ 1,286,415	$ (928,750)	$ 1,286,415	$ 70,840
Capital lease payable	300,000	-	(59,541)	240,459	59,061
Compensated absences payable	15,391	2,860	(10,484)	7,767	4,411
Total activities	$ 1,244,141	$ 1,289,275	$ (998,775)	$ 1,534,641	$ 134,312

(A) Capital Leases

At September 30, 2014, the City had the following outstanding capital leases:

	Original Amount	Balance September 30, 2014
Capital lease payable to Hancock Bank, dated August 1, 2013, secured by various equipment, bearing an interest rate of 1.18%, payable in annual installments of $61,898.35 through March 1, 2018.	$ 300,000	$ 240,459
Capital lease payable to Hancock Bank, dated July 22, 2014, secured by building and land, bearing an interest rate of 3.09%, payable in annual principal payments and interest payments beginning on May 1, 2015 through July 1, 2029.	1,286,415	1,286,415
Total capital leases	$ 1,586,415	$ 1,526,874

NOTE 6: LONG-TERM DEBT (Continued)

(A) Capital Leases (Continued)

The future minimum lease obligation and the net present value of these minimum lease payments as of September 30, 2014, were as follows:

Year Ending September 30,	Total
2015	$ 170,169
2016	170,169
2017	170,169
2018	170,171
2019	108,272
2020 - 2024	541,359
2025 - 2029	541,358
Total minimum lease payments	1,871,667
Less amount representing interest	(344,793)
Present value of minimum payments	$1,526,874

On July 22, 2014, the City acquired its city hall buildings and grounds through a capital lease agreement between Southern Mississippi Investment Co., Inc., Hancock Bank, and the City. Under this agreement, Southern Mississippi Investment Co., Inc.'s purchase of the buildings and grounds was financed by a loan agreement with Hancock Bank. The Hancock Bank loan amount included funds to purchase and renovate the buildings and grounds. An assignment agreement between the parties includes stipulations that Southern Mississippi Investment Co., Inc. assign all its rights, title, and interest in the lease agreement, including receiving rental payment, to Hancock Bank. Under the terms of these agreements, rental and additional rental payments made by the City are paid directly to Hancock Bank as repayment of Southern Mississippi Investment Co., Inc.'s loan. As of September 30, 2014, the City has $310,376 in cash that is restricted for city hall buildings and grounds renovation. Any of this restricted cash that is not used when the city hall renovation is complete must be used to prepay the loan.

(B) Legal Debt Margin

The amount of debt, excluding specific exempted debt that can be incurred by the City is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the City, according to the last completed assessment for taxation. However, the limitation is increased to 20% whenever a City issues bonds to repair or replace washed out or collapsed bridges on the public roads of the City. As of September 30, 2014, all of the City's debt was exempt from legal debt margin calculations per state statue.

(C) Interest Expense

For the year ended September 30, 2014, $40,210 in interest was expensed and is included in the statement of activities under interest expense.

NOTE 7: DEFERRED COMPENSTATION PLAN

Plan Description

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

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

Funding Policy

The plan is voluntary and contributions are matched up to a certain percent designated by Council. The City matches an employee's contributions on a dollar for dollar basis up to a maximum of 8% of the employee's salary or $5,000 per fiscal year, whichever is less. The City contributed $9,419 to the deferred compensation plan for the fiscal year ended September 30, 2014.

NOTE 8: COMMITMENTS AND CONTINGENCIES

(A) Litigation

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

(B) Grants and Awards

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

(C) Operating Lease Commitments

Non-cancellable operating leases at September 30, 2014 are as follows:

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

NOTE 8: COMMITMENTS AND CONTINGENCIES (Continued)

(C) Operating Lease Commitments (Continued)

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

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

Total operating lease payments made during the year ended September 30, 2014 totaled $3,049.

The future noncancelable lease obligation of these leases at September 30, 2014 is as follows:

Year Ending September 30,	Total
2015	$ 4,647
2016	4,647
2017	4,647
2018	3,552
2019	1,599
	$ 19,092

(D) Contract Commitments

The following represents significant contract commitments as of September 30, 2014:

Interlocal Agreements

Police Protection Services

In September 2012, as approved by the Mississippi State Attorney General and as provided by Miss. Code Ann. (1972), §17-13-1 and §17-13-5. *et seq.*, the City entered into an interlocal cooperation agreement with Hancock County, Mississippi (County), whereby the County will provide all police protection, animal control, investigative services, and other purposes, including 911 services to the City. This agreement was renewed in December 2013 and expires on December 31, 2015. This agreement is cancellable upon 60 days written notice by mutual agreement between parties. For the fiscal year ended September 30, 2014, the City paid $484,628 to the County for services received under the terms of this agreement.

Taxes Collection Services

In February 2012, the City entered into a two year interlocal agreement with Hancock County, Mississippi (County), whereby the County Tax Collector will provide real, personal, and auto ad valorem property taxes collections services for the City. The terms of the agreement include automatic annual renewal. The agreement can be terminated by either party by written notification. Under the terms of the agreement, the County Tax Collector will retain 2% of gross collections as commission, not to exceed $40,000 per year. For the fiscal year ended September 30, 2014, the City paid $40,000 to the County Tax Collector for services received under the terms of this agreement.

NOTE 8: COMMITMENTS AND CONTINGENCIES (Continued)

(D) Contract Commitments (Continued)

Delinquent Taxes Collection Services

In February 2012, the City entered into a two year interlocal agreement with Hancock County, Mississippi (County), whereby the County Chancery Clerk will provide delinquent tax redemption payments services for the City. The terms of the agreement include automatic annual renewal. The agreement can be terminated by either party by written notification not less than nine months in advance of annual renewal date. Under the terms of the agreement, the County Chancery Clerk will be paid $10 per parcel for cost incurred. For the fiscal year ended September 30, 2014, the City paid $750 to the County Chancery Clerk for services received under the terms of this agreement.

Solid Waste Fees Collections Services

In November 2013, the City entered into a two year interlocal agreement with Hancock County, Mississippi (County), whereby the County Tax Collector will provide solid waste fees collections for the City. Under the terms of the agreement, services commenced on January 1, 2014, and automatically renews annually. The agreement can be terminated by either party. For the fiscal year ended September 30, 2014, the City paid $8,512 to the County Tax Collector for services received under the terms of this agreement.

Service Contract

Solid Waste Collections

Currently, the City's solid waste collections are provided through a contract between Hancock County Regional Solid Waste Authority (Authority) and Waste Management of Mississippi, Inc. (Contractor). Under the terms of the contract, the Contractor will collect, haul, and dispose of solid waste generated by the City's residents. The Contractor submits monthly invoices to the Authority for these services. The Authority bills the City for its respective portion of the Contractor's invoices. For the fiscal year ended September 30, 2014, the City paid $282,810 to the Authority for solid waste collections services.

(E) Construction Contract Commitments

The City had $36,440 in outstanding construction contract commitments with respect to unfinished capital projects as of City of Diamondhead, which will be paid from existing grants and restricted funds.

NOTE 9: RISK MANAGEMENT

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

NOTE 10: PRIOR PERIOD ADJUSTMENTS

During the year ended September 30, 2014, prior period adjustments were recorded. The corrections include adjustments to record property tax receivable, prepaid insurance, a capital lease and related principal payment made, donated land, and a correction to depreciation and asset balances. The following financial statement line items as of and for the year ended September 30, 2013, were affected by this correction:

	As Previously Stated	As Restated	Effect of Correction - Increase (Decrease)
Government-Wide Financial Statements			
General Fund Activities			
Statement of Net Assets at September 30, 2013:			
Taxes receivable	$ 151,010	$ 190,178	$ 39,168
Prepaid insurance	$ -	$ 32,091	$ 32,091
Capital lease payable	$ 300,000	$ 1,228,750	$ 928,750
Nondepreciable assets	$ 34,095	$ 7,397,514	$ 7,363,419
Depreciable assets (net of accumulated depreciation)	$ 57,472,381	$ 59,273,395	$ 1,801,014
Net position	$ 58,796,987	$ 67,103,929	$ 8,306,942
Statement of Activities for the year ended September 30, 2013:			
General revenue	$ 4,004,849	$ 4,044,017	$ 39,168
Capital grants and contributions	$ 11,250	$ 7,408,764	$ 7,397,514
General government expense	$ 1,155,041	$ 284,781	$ (870,260)
Change in net position	$ 58,714,549	$ 67,021,491	$ 8,306,942
General Fund Financial Statements			
Statement of Net Position at September 30, 2013:			
Taxes receivable	$ 151,010	$ 190,178	$ 39,168
Prepaid insurance	$ -	$ 32,091	$ 32,091
Fund Balance	$ 1,605,902	$ 1,677,161	$ 71,259
Statement of Revenues, Expenses, and Changes in Fund Net Position for the year ended September 30, 2013:			
Property tax revenue	$ 2,856,941	$ 2,896,109	$ 39,168
General government expenditures	$ 1,151,205	$ 1,119,114	$ (32,091)
Net change in fund balance	$ 1,598,400	$ 1,669,659	$ 71,259

NOTE 11: SUBSEQUENT EVENTS

The City has evaluated events subsequent to year end through September 25, 2015, which is the date the financial statements were available to be issued. The following events were identified:

(A) Construction Contract Commitments

Subsequent to year end, the City entered into approximately $1,223,028 in construction contracts and change orders related to grant management, street and drainage repairs, and city hall renovation projects. These projects are funded by federal grants and city funds.

(B) Grants

Subsequent to year end, the City was awarded approximately $740,630 in grants to be used on operating and capital projects.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule 1

CITY OF DIAMONDHEAD, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Taxes				
Ad Valorem - Real Property	$ 2,150,000	$ 2,150,000	$ 2,283,090	$ 133,090
Ad Valorem - Auto	367,727	367,727	527,185	159,458
Ad Valorem - Personal Property	30,303	30,303	39,094	8,791
Ad Valorem - Utilities	4,500	4,500	8,446	3,946
Penalties & Interest	3,800	-	17,928	17,928
Licenses and permits				
Privilege Licenses	6,000	6,000	7,411	1,411
Building Permits	101,136	48,851	65,856	17,005
Contractor's Licenses	10,660	10,660	9,532	(1,128)
Franchise Fees	264,000	264,000	294,203	30,203
Planning & Zoning Fees	3,500	3,500	800	(2,700)
Federal grants	50,000	807	807	-
State shared revenues	583,800	583,800	737,861	154,061
Local shared revenues	177,935	177,935	186,927	8,992
Interest	2,400	2,400	6,715	4,315
Solid waste	-	17,420	33,481	16,061
Fines and forfeitures	24,000	27,800	26,413	(1,387)
Miscellaneous	-	-	5,477	5,477
Total revenues	3,779,761	3,695,703	4,251,226	555,523
EXPENDITURES				
Legislative				
Personnel services	13,038	13,038	12,974	64
Supplies	600	600	636	(36)
Other services and charges	11,784	11,784	5,505	6,279
Total legislative	25,422	25,422	19,115	6,307
Judicial - Municipal Court				
Personnel services	77,716	77,716	57,180	20,536
Supplies	1,500	1,500	1,249	251
Other services and charges	4,080	4,080	1,983	2,097
Total judicial court	83,296	83,296	60,412	22,884
Administration				
Personnel services	380,447	373,450	318,870	54,580
Supplies	33,814	33,814	17,211	16,603
Other services and charges	583,675	590,075	471,558	118,517
Debt service	58,326	58,326	988,291	(929,965)
Capital outlay	1,690,421	1,380,421	165,283	1,215,138
Total administration	2,746,683	2,436,086	1,961,213	474,873
Public safety				
Police				
Personnel services	23,825	9,457	10,746	(1,289)
Supplies	73,655	73,655	38,678	34,977
Other services and charges	689,666	660,766	501,618	159,148
Capital outlay	8,500	51,768	51,839	(71)
Total public safety	795,646	795,646	602,881	192,765

Schedule 1
(Continued)

CITY OF DIAMONDHEAD, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
EXPENDITURES, Continued				
Economic Development				
Personnel services	93,474	85,113	84,314	799
Supplies	12,200	12,200	3,276	8,924
Other services and charges	154,043	162,588	124,129	38,459
Total economic development	259,717	259,901	211,719	48,182
Public works				
Personnel services	746,140	608,579	519,126	89,453
Supplies	215,734	176,585	46,777	129,808
Other services and charges	298,210	287,088	265,885	21,203
Capital outlay	182,300	546,218	347,822	198,396
Total public works	1,442,384	1,618,470	1,179,610	438,860
Miscellaneous				
Solid Waste				
Other services and charges	-	8,512	8,512	-
Capital projects				
Other services and charges	-	104,393	774	103,619
Total miscellaneous	-	112,905	9,286	103,619
Total expenditures	5,353,148	5,331,726	4,044,236	1,287,490
Excess (deficiency) of revenues over expenditures	(1,573,387)	(1,636,023)	206,990	1,843,013
OTHER FINANCING SOURCES (USES)				
Equipment lease proceeds	-	135,806	-	(135,806)
Debt proceeds	1,600,000	1,290,000	1,286,415	(3,585)
Total other financing sources (uses)	1,600,000	1,425,806	1,286,415	(139,391)
Net change in fund balance	26,613	(210,217)	1,493,405	$ 1,703,622
Fund balance-beginning, budget basis	477,260	386,220	1,526,913	
Fund balance-ending, budget basis	$ 503,873	$ 176,003	3,020,318	
Reconciliation to GAAP basis:				
Cumulative difference between GAAP basis fund balance and budget basis fund balance at beginning of the year.			150,578	
Change in accounts receivable			32,296	
Change in due from other governments			44,329	
Change in prepaid expenses			32,872	
Change in accounts payable			(7,991)	
Change in accrued liabilities			(7,479)	
Change in deferred revenue			(35,650)	
Fund balance-ending, GAAP basis			$3,229,273	

See note to budgetary comparison schedule.

CITY OF DIAMONDHEAD, MISSISSIPPI
NOTE TO BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE 1: BUDGETARY DATA

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

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

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

The Budgetary Comparison Schedule presents comparisons of legally adopted budgets with actual data on the budgetary basis. Since accounting principles applied for purposes of developing data on the budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of timing differences in the net change in fund balance for the year ended September 30, 2014 is presented at the end of the Budgetary Comparison Schedule.

OTHER SUPPLEMENTARY INFORMATION

CITY OF DIAMONDHEAD, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR CITY OFFICIALS
SEPTEMBER 30, 2014

Position	Name	Surety	Bond Amount
Mayor	Thomas Schafer, IV	Traveler's	$ 100,000
Council	Ronald Rech	Traveler's	100,000
Council	Ernest Knobloch	Traveler's	100,000
Council	Joseph Lopez	Traveler's	100,000
Council	Blaine LaFontaine	Traveler's	100,000
Council	Thomas Sislow	Traveler's	100,000
City Manager	Richard Rose (terminated 6/2014)	Traveler's	50,000
City Manager	Clovis Reed (began 9/2014)	Traveler's	50,000
City Clerk	Kristin Ventura	Traveler's	50,000
Court Clerk	Lolita McSwain	Traveler's	50,000
City Accountant	Kristin Ventura	Traveler's	50,000
Building Clerk	Holly Bilbo	Traveler's	50,000
Receptionist	Elaine Bienvenu	Traveler's	50,000
Minutes Clerk	Jeannie Klein	Traveler's	50,000
Accounts Payable Clerk	Herbert Swanson	Traveler's	50,000
Purchasing Clerk	Mary Scott	Traveler's	50,000
Building Official	Ronald Jones	Traveler's	50,000
Police Officer	William Reid	Traveler's	25,000

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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

AVL WEALTHCARE, LLC
Wealth Management

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

September 25, 2015

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of City of Diamondhead, Mississippi, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise City of Diamondhead, Mississippi's basic financial statements, and have issued our report thereon dated September 25, 2015.

Internal Control Over Financial Reporting

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

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. However, as described in the accompanying schedule of findings and management's responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and management's responses to be material weaknesses. 2014-001 – 2014-004

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and management's responses to be significant deficiencies. 2014-005 – 2014-007

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Diamondhead, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2014-008.

City of Diamondhead, Mississippi's Response to Findings

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

Purpose of this Report

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

Alexander, Van Loon, Sloan, Levens & Favre

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

2014-001 Finding

Condition

On January 7, 2013, the City entered into a lease for a building to serve as City Hall that met the criteria to be a capital lease but was not capitalized by the City on its accounting records during fiscal year 2013. A prior period adjustment was recorded in the current year to correct this error.

Criteria

Generally accepted accounting principles require that leases are capitalized and depreciated on the government wide level when they meet specific criteria. Capital leases on the fund level are recorded as an expense to capital outlay and proceeds from long term debt revenue.

Effect

Improper application of accounting principles resulted in misstatements in prior years' financial statements of $928,750.

Recommendation

We recommend that the City adhere to generally accepted accounting principles and capitalize material leases that meet capitalization requirements.

Management's Response

The City implemented InCode accounting software provided by Tyler Technologies in September 2013. It was recommended by Tyler Technologies that the GASB Module not be implemented until a full year's activity had been completed and audited. Therefore the City did not record these entries until the GASB module was implemented. Upon completion of the FY14 audit, the GASB module will be implemented.

2014-002 Finding

Condition

On January 7, 2013, the Diamondhead Country Club and Property Owners' Association, Inc, conveyed to the City a number of land and infrastructure items including roads, easements, drainage plats, and parks. An estimate of the fair value of the donated items was not capitalized during fiscal year 2013. A prior period adjustment was recorded in the current year to correct this error.

2014-002 Finding (Continued)

Criteria

Generally accepted accounting principles require that donated assets and materials be recorded at fair value on the date of donation resulting in revenue and expensed according to the City's capital asset policy on the fund level. On the government wide level, revenue is recognized and the donated item is capitalized and depreciated according to the City's capital asset policy.

Effect

Improper application of accounting principles resulted in misstatements in prior years' financial statements of $7,397,514.

Recommendation

We recommend that the City adhere to generally accepted accounting principles and record the fair value of donated assets and materials using a reasonable measure. A memo, computer search printout, or other supporting documentation supporting the fair value recorded should be kept on file. However, any documentation given to a donor should not include such value to comply with Internal Revenue Service (IRS) regulations.

Management's Response

The City implemented InCode accounting software provided by Tyler Technologies in September 2013. It was recommended by Tyler Technologies that the GASB Module not be implemented until a full year's activity had been completed and audited. Therefore the City did not record these entries until the GASB module was implemented. Upon completion of the FY14 audit, the GASB module will be implemented.

2014-003 Finding

Condition

At September 30, 2013, the City had outstanding taxes receivable for fiscal year 2013 that were subsequently received but not recorded as receivable at year end. A prior period adjustment was recorded in the current year to correct this error.

Criteria

Generally accepted accounting principles require that revenues and receivables be recorded on the government wide level as soon as a legally enforceable claim is established. On the fund level, receivables received within the period of availability (typically 60 days from year end) are recorded as receivables. Receivables not received within the period of availability are recorded as deferred revenues.

2014-003 Finding (Continued)

Effect

Improper application of accounting principles resulted in misstatements in prior years' financial statements of $39,168.

Recommendation

We recommend that the City adhere to generally accepted accounting principles and record all revenues and receivables within the proper accounting period.

Management's Response

In prior years, outstanding receivables were accounted for at year end to reflect the actual cash balance. Corrective measures have been implemented to record all revenues and receivables within the proper accounting period.

2014-004 Finding

Condition

At September 30, 2013, the City had prepaid insurance expenditures that were not recorded as an asset. A prior period adjustment was recorded in the current year to correct this error.

Criteria

Generally accepted accounting principles require that payments made to vendors for services that benefit future periods beyond the fiscal year end be recorded as prepaid both government wide and on the fund level.

Effect

Improper application of accounting principles resulted in misstatements in prior years' financial statements of $32,091.

Recommendation

We recommend that the City adhere to generally accepted accounting principles and record payments made to vendors for services that benefit future periods as prepaid items.

Management's Response

In prior years, expenditures benefitting future periods were accounted for to reflect the actual cash outflows during the fiscal year. Corrective measures have been implemented to record payments made to vendors for services that benefit future periods as prepaid items.

2014-005 Finding

Condition

The City does not record or track its accounts receivables, areas specifically noted were court fines, miscellaneous receivables, and receivable from Diamondhead Water and Sewer District.

Criteria

Mississippi State law (Section 100, Mississippi Constitution supported by Attorney General's Opinion NO. 96-0711) prohibits Mississippi governmental entities from forgiving obligations to them.

Effect

By not recording a receivable due. the City is in essence forgiving an obligation to them which is a violation of State law. Accordingly, the City is required to maintain a list of delinquent receivables so that any debt can be collected if circumstances surrounding the balance change.

Recommendation

The City should record all amounts due to them regardless of whether they consider them to be collectable. The City should also start to implement measures to collect on outstanding balances owed to the City before all receivables are considered uncollectable. Collections on delinquent accounts are likely to be better the earlier collection efforts are started. Periodic preparation and review of such a delinquent accounts analysis would allow for prompt action on delinquent accounts.

Management's Response

The City is in the process of obtaining the Receivable module provided thru Tyler Technologies. Until such time, the City has implemented internal measures for tracking receivables. For receivables in default the City will be securing the services of a collection agency.

2014-006 Finding

Condition

Some revenues and expenditures are recorded in the same revenue or expense accounts in the general ledger, incidents noted were in the areas of court assessments, solid waste collections, and building permit contractors.

Criteria

Generally accepted accounting principles require that revenues and expenses be reported separately in the financial statements both on fund level and government wide.

2014-006 Finding (Continued)

Effect

Improper application of accounting principles could result in misstatements in the financial statements and will not provide accurate information for analysis by City management.

Recommendation

For proper financial statement reporting we recommend that the City adhere to generally accepted accounting principles requirements to record and report revenues and expenses in separate revenue and expense accounts in the general ledger and financial statements.

Management's Response

The City was advised by the previous auditor to record such revenues and expenses as a net figure. However, in the future, these entries will be recorded separately in the financial statements.

2014-007 Finding

Condition

City Council approves the docket and the check signers sign the checks without reviewing the supporting invoices for the docket.

Criteria

As a component of an effective system of internal controls and to reduce the potential of fraud or abuse all check signers should review supporting documentation before signing checks from the docket approved by City Council.

Effect

Failure to properly review supporting documentation before signing checks for payment could lead to an invoice being paid either in error or due to fraud.

Recommendation

Final approval for payment should be dependent upon proper preliminary approval of support. Sign off should be made on the docket to indicate review of the supporting invoices.

Management's Response

The docket has always been reviewed in detail by management and council. However, signature verifying review was never obtained. They are provided for review. Corrective measures have been implemented by whereby check signers will provide signature confirming review of the invoices.

2014-008 Finding

Condition

During fiscal year 2014, a contractor provided surface preparation and paving services as well as paving materials to the City in the amount of $126,696. The City has a term contract with the contractor to furnish the City with various types of hot bituminous pavement which was used to provide the materials for the paving job. According to the ruling by the Office of the Attorney General of the State of Mississippi, Opinion Number 93-0468, if the "vendor" is in fact the party actually performing significant site design, preparation and/or construction in addition to delivering the product "in place" then the job would qualify as a public works contract and must be competitively bid as such. Accordingly, the City failed to bid a public works contract in excess of $50,000 as required by the Mississippi Code Annotated § 31-7-13 (2014).

Criteria

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

Effect

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

Recommendation

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

Management's Response

The Hot Bituminous contract was written to include the milling/road preparation work. We have been made aware of the Attorney General's ruling stating that any paving that includes milling/preparation work must be bid out according to standard purchasing rules. We are not renewing any service term contracts and will use the MDOT Asphalt "agency contract" for the purchase of asphalt only. All future paving projects with the City will be bid out according to state purchasing laws.

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Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC
Wealth Management

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

September 25, 2015

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

We have audited the basic financial statements of the City of Diamondhead as of and for the year ended September 30, 2014 and have issued our report dated September 25, 2015. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards.*

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

The results of those procedures and our audit of the basic financial statements did result in a material instance of noncompliance with state laws and regulations. Instance of noncompliance can be found in the schedule of findings and management responses as 2014-008 finding.

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

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Certified Public Accountants
Gulfport, Mississippi

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