

CITY OF DIAMONDHEAD, MISSISSIPPI

Audited Financial Statements and Special Reports

For the Year Ended September 30, 2022

CITY OF DIAMONDHEAD, MISSISSIPPI
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For the Year Ended September 30, 2022

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INTRODUCTORY SECTION



CITY OFFICIALS
As of September 30, 2022

ELECTED OFFICIALS

Mayor Nancy Depreo

Council Members:

At-Large	Gerard Maher
Ward 1	Shane Finley
Ward 2	Anna Liese
Ward 3	John Cumberland
Ward 4	Charles S. "Chuck" Clark

APPOINTED FINANCIAL OFFICIALS

City Manager	Jon McCraw
City Clerk	Jeannie Klein

Regular council meetings are held on the first and third Tuesday of each month at 6 p.m. in the council chambers located in City Hall, 5000 Diamondhead Circle, Diamondhead, MS 39525

FINANCIAL SECTION

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

Certified Public Accountants

HANCOCK BANK BUILDING

2510 - 14TH STREET

P.O. BOX 129

GULFPORT, MISSISSIPPI 39502

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
Diamondhead, Mississippi

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Diamondhead, Mississippi (the City), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of City of Diamondhead, Mississippi, as of September 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States (Government Auditing Standards). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a

going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood, that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the Budgetary Comparison Schedule and corresponding notes, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Schedule of Surety Bonds for City Officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

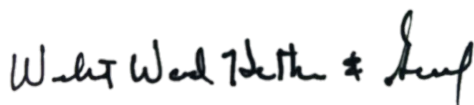
In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2023, on our consideration of City of Diamondhead, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Diamondhead, Mississippi's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Diamondhead, Mississippi's internal control over financial reporting and compliance.

Other Reporting Required by *State of Mississippi*

In accordance with the State of Mississippi, we have also issued our report dated November 21, 2023, on our consideration of the City of Diamondhead, Mississippi's compliance with state laws and regulations. The purpose of that report is to describe the scope of our testing of internal controls over compliance with state laws and regulations and the result of that testing, and not to provide an opinion on internal controls or compliance. That report is an integral part of an audit performed in accordance with state guidelines in considering the City of Diamondhead Mississippi's internal control over financial reporting and compliance.



Wright, Ward, Hatten & Guel
Gulfport, Mississippi
November 21, 2023

MANAGEMENT DISCUSSION AND ANALYSIS

City of Diamondhead, Mississippi
Management's Discussion and Analysis (Continued)
For the Year Ended September 30, 2022

This section of the City of Diamondhead, Mississippi's (the City) Annual Financial Report presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal year ended September 30, 2022, and 2021. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that follow.

The City of Diamondhead is located on the Mississippi Gulf Coast and is ranked as the 44th most populated city in the State of Mississippi. According to the United States Census Bureau, the estimated population of City of Diamondhead as of July 1, 2022, was 9,211. The median household income is \$65,601 with over 90.4% of persons 25 years or older holding a high school degree or higher.

Government-wide Financial Highlights

- Total assets and deferred outflows of resources exceed the liabilities and deferred inflows of resources at the close of the current year by approximately \$64,401,906. This amount represents the total net position of the City's governmental activities. This amount increased from last year's net position of \$64,304,352 (includes a \$469,752 prior period adjusting entry) by \$97,554 for current year activities.
- General revenues amounted to \$6,011,621 or 77% of total revenues. This amount increased \$266,187 from 2021 (as reclassified to recognize ARRA funds as general revenue due to council adopting the "revenue loss" option during the current year). Program revenues amounted to \$1,782,310 or 23% of total revenues, a decrease of \$1,588,485 from 2021. This decrease was mostly due to the decrease in grants recognized in 2021 for federal reimbursement for hurricane expenditures.
- Overall expenses for the City decreased \$1,358,331 (including a \$469,752 prior period adjustment) from the total adjusted expenses of \$9,054,708 reported in 2021. This decrease is primarily due to a significant hurricane expenditures incurred in 2021.
- Capital asset acquisitions totaled \$2,327,736 while normal straight-line depreciation of capital assets totaled \$2,636,829.
- The City incurred \$21,477 in capital leases debt in 2022. Principal payments of \$152,218 were made to reduce outstanding capital debt.
- The City had \$1,315,515 in major construction in progress at the end of 2022 with a continuing commitment of \$189,948 in future years.

Major Fund Highlights

- *General Fund* – This fund is used for the general operations of the City. The General Fund had \$7,294,691 in revenues and \$5,444,631 in expenditures. Transfers to other funds for required grant matching funds totaled \$824,497 and a transfer of \$2,000,000 was made to the contingency fund for future expenditures. The general fund had an overall decrease in fund balance of \$740,420.
- *Contingency Fund* – This fund is used to account for the amounts assigned by council to be held for future expenditures.
- *ARRA Fund* – This fund is used to account for receipts and expenditures of the American Rescue and Recovery Act funds the City received in 2021 and 2022. In 2022, the City opted to claim the "revenue loss" option available to release these federal funds for a majority of the restrictions originally placed. The fund shows at September 30, 2022 committed fund balance (signed contracts) of \$89,861 and assigned fund balance of \$1,514,121.

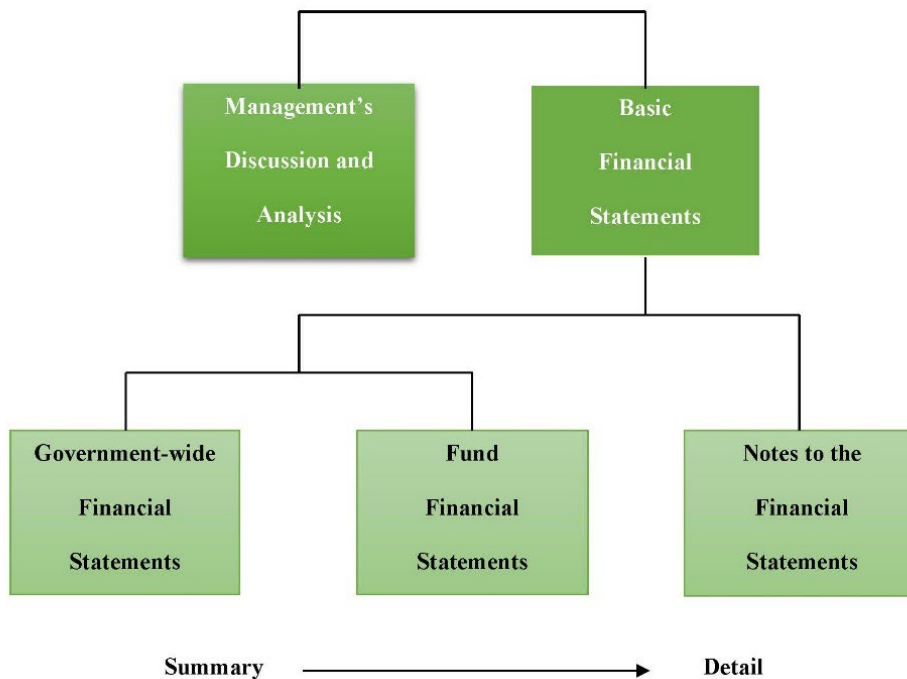
City of Diamondhead, Mississippi
Management's Discussion and Analysis (Continued)
For the Year Ended September 30, 2022

USING THIS ANNUAL FINANCIAL REPORT

This discussion and analysis are intended to serve as an introduction to City of Diamondhead's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City of Diamondhead.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the City's government. These statements provide more detail than the government-wide statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show required budgetary information and required pension plan schedules, and other relevant information.

City of Diamondhead, Mississippi
Management's Discussion and Analysis (Continued)
For the Year Ended September 30, 2022

OVERVIEW OF FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements (Statement of Net Position and the Statement of Activities)

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

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

Table 1 provides a summary of the City's net position for 2022 compared to 2021.

<p style="text-align: center;">TABLE 1 Condensed Statement of Net Position September 30, 2022 and 2021</p>			
	Governmental Activities		
	2022	2021*	Change
Assets			
Current assets	\$ 6,733,347	\$ 7,137,236	\$ (403,889)
Noncurrent assets	4,223,580	3,526,461	697,119
Capital assets	58,080,982	58,399,376	(318,394)
Total Assets	69,037,909	69,063,073	(25,164)
Liabilities			
Current liabilities	821,460	624,501	196,959
Noncurrent liabilities	857,150	1,124,970	(267,820)
Total Liabilities	1,678,610	1,749,471	(70,861)
Deferred Inflows	2,957,393	3,009,250	(51,857)
Net Position			
Net investment in capital assets	56,966,564	57,322,220	(355,656)
Restricted net assets	891,434	3,703,453	(2,812,019)
Unrestricted	6,543,908	3,278,679	3,265,229
Total Net Position	\$ 64,401,906	\$ 64,304,352	\$ 97,554
<p style="text-align: center;"><i>* amounts from FY 2021 have been reclassified for comparison purposes and includes a prior period adjustment of \$469,752</i></p>			

City of Diamondhead, Mississippi
Management's Discussion and Analysis (Continued)
For the Year Ended September 30, 2022

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Total net position increased \$97,554 as a result primarily due to an increase in grant and bond driven capital projects.

Restrictions on net position decreased significantly due to completion and payment of capital project commitments at year end in 2021.

Table 2 provides a summary of the City's statement of activities for 2022 compared to 2021.

TABLE 2			
Condensed Statement of Activities			
September 30, 2022 and 2021			
	Governmental Activities		
	2022	2021	Change
Revenues:			
Program revenues:			
Charges for services	\$ 859,388	\$ 725,970	133,418
Capital grants and contributions	922,922	2,644,825	(1,721,903)
General revenues			-
Taxes	4,389,002	4,371,695	17,307
Grants and contributions - unrestricted	1,312,346	1,245,316	67,030
Investment earnings	54,609	55,457	(848)
Miscellaneous	255,664	72,966	182,698
Total revenues	<u>7,793,931</u>	<u>9,116,229</u>	<u>(1,322,298)</u>
Expenses:			
General government	1,736,599	1,700,604	35,995
Public safety	1,042,089	1,064,066	(21,977)
Public works	4,148,284	5,696,336	(1,548,052)
Culture and recreation	21,223	25,196	(3,973)
Economic development	128,738	43,183	85,555
Solid waste	592,329	496,519	95,810
Interest on long-term debt	27,115	28,804	(1,689)
Total expenses	<u>7,696,377</u>	<u>9,054,708</u>	<u>(1,358,331)</u>
Changes in net position	97,554	61,521	36,033
Net Position - beginning, restated	<u>64,304,352</u>	<u>64,242,831</u>	<u>61,521</u>
Net Position - ending	<u>\$ 64,401,906</u>	<u>\$ 64,304,352</u>	<u>97,554</u>
<i>* amounts from FY 2021 have been reclassified for comparison purposes and public works includes a prior period adjustment of \$469,752</i>			

Capital grant income decreased significantly in 2022 due to federal grants received in 2021 to offset hurricane expense.

City personnel costs continue to rise as the City attempts to keep pace with the cost of living increases.

City of Diamondhead, Mississippi
Management's Discussion and Analysis (Continued)
For the Year Ended September 30, 2022

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

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

General Fund

The City's General Fund is the main operating fund and accounts for the sources and uses that make up the City's administrative, public safety, general public works, cultural and recreation and economic development services provided by the City to and for the general public. The unassigned fund balance of the general fund may serve as a useful measure of a government's net resources available for discretionary use at the end of the fiscal year.

Table 3 provides a condensed summary of the City's changes in general fund sources and uses in 2022 compared to 2021.

TABLE 3
Condensed Sources, Uses and Changes in Fund Balance - General Fund
For the year ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Sources:				
<i>Revenues:</i>				
Property taxes	3,013,659	3,181,209	(167,550)	-5%
General sales taxes	972,827	877,858	94,969	11%
Franchise taxes	289,751	291,539	(1,788)	-1%
Road and bridge taxes	112,765	210,879	(98,114)	-47%
Licenses, commissions and other	174,526	168,502	6,024	4%
Fines and forfeitures	28,366	54,146	(25,780)	-48%
Intergovernmental	2,616,595	18,675	2,597,920	13911%
Interest	39,122	52,826	(13,704)	-26%
Other	47,080	72,966	(25,886)	-35%
<i>Other Sources:</i>				
Proceeds from issuance of debt	21,477	320,000	(298,523)	-93%
Transfers in	-	51	(51)	
Sale/Donation of assets	212,540	41,645	170,895	410%
Total sources	<u>7,528,708</u>	<u>5,290,296</u>	<u>2,238,412</u>	42%
Uses:				
<i>Expenditures:</i>				
General government	1,988,988	1,658,141	330,847	20%
Public safety	1,029,287	1,070,715	(41,428)	-4%
Public works	2,118,285	4,000,518	(1,882,233)	-47%
Economic development	128,738	72,733	56,005	77%
Debt service	179,333	111,136	68,197	61%
<i>Other Uses:</i>				
Transfers out	2,824,497	383,330	2,441,167	637%
Total uses	<u>8,269,128</u>	<u>7,296,573</u>	<u>972,555</u>	13%
Change in Fund Balance	<u>(740,420)</u>	<u>(2,006,277)</u>	<u>1,265,857</u>	-63%

City of Diamondhead, Mississippi
Management's Discussion and Analysis (Continued)
For the Year Ended September 30, 2022

General Fund Budgeting Highlights

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

During the course of 2022, 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 public works departments, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or over-spending by individual departments.

Capital Assets

Table 3 shows the Changes in Capital Assets for the years ended September 30, 2022 and 2021.

TABLE 3 Schedule of Capital Assets (Net of Accumulated Depreciation) September 30, 2022 and 2021			
	2022	2021*	Change
Land	\$ 8,811,411	8,477,672	333,739
Construction in progress	1,315,515	742,072	573,443
Infrastructure	44,956,684	46,518,788	(1,562,104)
Buildings & improvements	1,953,966	1,678,788	275,178
Improvements - other	725	776	(51)
Mobile equipment	942,642	915,448	27,194
Furniture and equipment	100,039	65,832	34,207
Total	<u>\$ 58,080,982</u>	<u>58,399,376</u>	<u>(318,394)</u>
<i>Fiscal year 2021 has been restated due to a \$469,752 prior period adjustment</i>			

Capital asset acquisitions totaled \$2,327,736 while normal straight-line depreciation of capital assets totaled \$2,636,829.

General Long-term Obligations

At September 30, 2022, the City had \$946,415 outstanding debt obligations, along with \$77,456 in compensated absences payable.

TABLE 4 Schedule of Debt Obligations September 30, 2022 and 2021			
	2022	2021	Change
Capital Leases	946,415	1,077,156	(130,741)
Compensated absences	77,456	55,852	21,604
Total	<u>\$ 1,023,871</u>	<u>\$ 1,133,008</u>	<u>(109,137)</u>

City of Diamondhead, Mississippi
Management's Discussion and Analysis (Continued)
For the Year Ended September 30, 2022

Economic Factors

The City of Diamondhead continues to project a mostly positive outlook in terms of its economic environment. Unlike much of the coastal Mississippi, Diamondhead has a diverse topography that ranges from sea level plains to rolling hills at nearly 90 feet above sea level. Citizens of Diamondhead enjoy a small town feel while being relatively close to the larger metropolitan area of the Gulf Coast.

Diamondhead's unemployment rate in 2022 was 3.8%, a decrease of 1.1% from 4.9% reported in 2021. The State of Mississippi's unemployment rate in September 2022 was approximately 4%. Diamondhead is uniquely located as to attract young professionals employed at Stennis Space Center and other regional employment hub.

Since its incorporation in 2012, Diamondhead leaders have worked to improve city services and infrastructure. Future plans for Diamondhead include:

- City paving of the "loop" of Diamondhead – A 8-mile paving project that will be financed by the \$4.5 million General Obligation Bonds, Series 2022, issued in 2023.
- Current projects total approximately \$1.6 million for paving and marsh erosion projects funding in part by various grants.
- Current projects total approximately \$7.2 million for drainage projects throughout the city funded in part by various grants.
- Gulf Coast Restoration funds in the amount of \$10.4 million will be used for the Commercial District Restoration Project.
- The City received approximately \$1,978,562 of American Rescue Plan Act funds over the past two years. Although the City adopted to elect the revenue loss option during 2021, which allowed Cities with receipts of less than \$10 million to recognize the full amount of the grant as lost revenue and significantly reduced federal restrictions and filing requirements on the funds, the City still intends to use these funds to upgrade and repair city infrastructure.
- The State of Mississippi's relatively new Infrastructure Modernization Act has brought in approximately \$579,855 that the City can utilize for drainage and road improvements.

While Diamondhead continues to make strides in terms of its economic growth, it still faces some challenges as a municipal government. Its current economic growth comes after years of devastation left by Hurricane Katrina, the economic recession in 2008, numerous hurricanes and tropical storms, and COVID-19's financial impact.

Personnel costs continue to rise due to cost of living increases and the City trying to be more competitive in order to keep and attain talented and qualified employees. Although there is slow growth in property tax and sales tax revenues the City has able room for expansion of new businesses and predicts an uptake in growth in the next few years with the completion of the Commercial District Restoration Project.

Contact the City's Financial Management

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

Jon McCraw, City Manager
City of Diamondhead, Mississippi
5000 Diamondhead Circle
Diamondhead, MS 39525
(228) 222-4626 ext. 1802

BASIC FINANCIAL STATEMENTS

City of Diamondhead, Mississippi

Statement of Net Position

September 30, 2022

Assets

Current assets

Cash	\$ 2,778,433
Property taxes receivable	3,097,120
Franchise tax receivable	81,178
Intergovernmental receivables	642,132
Fines and forfeitures (net of allowance)	25,607
Prepaid items	63,289
Inventory	45,588
Total Current Assets	<u>6,733,347</u>

Noncurrent Assets

Cash	4,223,580
Capital assets:	
Nondepreciable capital assets	10,126,926
Depreciable capital assets, net of accumulated depreciation	47,954,056
Total Noncurrent Assets	<u>62,304,562</u>

Total Assets

69,037,909

Liabilities

Current liabilities:

Claims payable	497,146
Wages payable	57,509
Due to other government agencies	26,511
Accrued interest payable	7,939
Retainage payable	30,542
Unearned revenue	35,092
Debt due within one year	
Capital debt	155,877
Noncapital debt	10,844
Total current liabilities	<u>821,460</u>

Noncurrent Liabilities:

Debt due in more than one year	
Capital debt	790,538
Noncapital debt	66,612
Total noncurrent liabilities	<u>857,150</u>

Total Liabilities

1,678,610

Deferred Inflows of Resources

Property tax for future reporting period	<u>2,957,393</u>
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Total Deferred Inflows of Resources

2,957,393

Net Position

Net investment in capital assets	56,966,564
Restricted for:	
Grant/bond purposes	891,434
Unrestricted	6,543,908
Total Net Position	\$ <u>64,401,906</u>

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

City of Diamondhead, Mississippi
Statement of Activities
For the Year Ended September 30, 2022

Functions/Programs	Expenses	Charges for Services	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities:				
General government	\$ 1,736,599	199,374	-	\$ (1,537,225)
Public safety	1,042,089	-	-	(1,042,089)
Public works	4,148,284	-	632,277	(3,516,007)
Culture and recreation	21,223	-	-	(21,223)
Conservation of natural resources		-	30,431	30,431
Economic development	128,738	-	260,214	131,476
Solid waste	592,329	660,014	-	67,685
Interest on long-term debt	27,115	-	-	(27,115)
Total	<u>\$ 7,696,377</u>	<u>859,388</u>	<u>922,922</u>	<u>(5,914,067)</u>
General Revenues:				
Taxes:				
				3,013,659
Property taxes, general				972,827
General sales taxes				289,751
Franchise taxes				112,765
Road and bridge privilege taxes				1,312,346
Grants and contributions not restricted				54,609
Unrestricted investment earnings				255,664
Miscellaneous				<u>6,011,621</u>
Total general revenues				
Changes in net position				97,554
Net position - beginning, restated				<u>64,304,352</u>
Net position - ending				<u>\$ 64,401,906</u>

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

City of Diamondhead, Mississippi
Balance Sheet – Governmental Funds
September 30, 2022

	Major Funds			Other	Total
	General	Contingency	ARRA	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
ASSETS					
Cash	\$ 903,199	\$ 2,000,000	\$1,626,473	\$ 2,472,341	\$ 7,002,013
Receivables					
Property tax	3,097,120	-	-	-	3,097,120
Franchise taxes	81,178	-	-	-	81,178
Intergovernmental	186,965	-	-	471,560	658,525
Fines and forfeitures (net of allowance)	9,214	-	-	-	9,214
Due from other funds	1,558,108	-	-	-	1,558,108
Prepaid items	63,289	-	-	-	63,289
Inventory	45,588	-	-	-	45,588
Total Assets	5,944,661	2,000,000	1,626,473	2,943,901	12,515,035
LIABILITIES					
Claims payable	301,900	-	19,908	175,338	497,146
Wages payable	57,509	-	-	-	57,509
Due to other government agencies	26,511	-	-	-	26,511
Interest payable	7,939	-	-	-	7,939
Retainage payable	-	-	2,583	27,959	30,542
Due to other funds	-	-	-	1,558,108	1,558,108
Compensated absences - current	10,844	-	-	-	10,844
Unearned revenue	35,092	-	-	-	35,092
Total Liabilities	439,795	-	22,491	1,761,405	2,223,691
DEFERRED INFLOWS OF RESOURCES					
Property taxes for future reporting period	2,957,393	-	-	-	2,957,393
Unavailable revenue - fines and grants	9,214	-	-	-	9,214
Total Deferred Inflows of Resources	2,966,607	-	-	-	2,966,607
FUND BALANCES					
Nonspendable	108,877	-	-	-	108,877
Restricted:					
State and federal restrictions	-	-	-	891,434	891,434
Committed:					
Capital projects	-	-	89,861	100,088	189,949
Assigned:					
Budget contingencies	-	2,000,000	-	-	2,000,000
Capital projects			1,514,121		1,514,121
Unassigned	2,429,382	-	-	190,974	2,620,356
Total Fund Balances	2,538,259	2,000,000	1,603,982	1,182,496	7,324,737
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$5,944,661	\$ 2,000,000	\$1,626,473	\$ 2,943,901	\$ 12,515,035

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

City of Diamondhead, Mississippi
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2022

Total governmental funds balance **\$ 7,324,737**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Governmental capital assets	\$ 81,187,558	
Less: accumulated depreciation	<u>(23,106,576)</u>	58,080,982

Other long term assets are not available to pay or current period expenditures and, therefore are deferred in the funds.

Court fines receivable	<u>9,214</u>	9,214
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Long-term liabilities are not due and payable in the current period expenditures and, therefore, are not reported in the funds.

Capital leases payable	(946,415)	
Compensated absences-long-term	<u>(66,612)</u>	<u>(1,013,027)</u>

Net position of governmental activities **\$ 64,401,906**

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

City of Diamondhead, Mississippi
Statement of Revenues, Expenditures and
Changes in Fund Balance – Governmental Funds
For the Fiscal Year Ended September 30, 2022

	Major Funds			Other	Total
	General	Contingency	ARRA	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
REVENUES					
Property taxes	\$ 3,013,659	\$ -	\$ -	\$ -	\$ 3,013,659
Franchise fees	289,751				289,751
Road and bridge taxes	112,765	-	-	-	112,765
Fines and forfeitures (net of allowance)	28,366	-	-	-	28,366
Licenses and permit fees	174,526	-	-	-	174,526
Intergovernmental	3,589,422	-	989,281	866,683	5,445,386
Charges for services	3,956	-	-	660,014	663,970
Interest earned	39,122	-	11,319	4,170	54,611
Miscellaneous	43,124	-	-	-	43,124
Total Revenues	<u>7,294,691</u>	<u>-</u>	<u>1,000,600</u>	<u>1,530,867</u>	<u>9,826,158</u>
EXPENDITURES					
General government	1,639,507	-	-	-	1,639,507
Public safety	993,198	-	-	-	993,198
Public works	1,473,815	-	176,748	-	1,650,563
Economic developemnt	128,738	-	-	-	128,738
Solid waste	-	-	-	592,329	592,329
Capital outlay	1,030,040	-	230,589	1,067,108	2,327,737
Debt service:					
Principal	152,218	-	-	-	152,218
Interest expense	27,115	-	-	-	27,115
Total Expenditures	<u>5,444,631</u>	<u>-</u>	<u>407,337</u>	<u>1,659,437</u>	<u>7,511,405</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from debt issuances	21,477	-	-	-	21,477
Donation of capital assets	212,540	-	-	-	212,540
Transfers in	-	2,000,000	10,719	813,778	2,824,497
Transfers out	(2,824,497)	-	-	-	(2,824,497)
Total Other Financing Sources (Uses)	<u>(2,590,480)</u>	<u>2,000,000</u>	<u>10,719</u>	<u>813,778</u>	<u>234,017</u>
Net change in fund balances	(740,420)	2,000,000	603,982	685,208	2,548,770
Fund balances - beginning	<u>3,278,679</u>	<u>-</u>	<u>1,000,000</u>	<u>497,288</u>	<u>4,775,967</u>
FUND BALANCES - ENDING	<u>\$ 2,538,259</u>	<u>\$ 2,000,000</u>	<u>\$ 1,603,982</u>	<u>\$ 1,182,496</u>	<u>\$ 7,324,737</u>

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

City of Diamondhead, Mississippi
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities
For the Fiscal Year Ended September 30, 2022

Net Change in Fund Balances - total governmental funds **\$ 2,548,770**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 2,327,737	
Depreciation	<u>(2,636,829)</u>	(309,092)

In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the assets sold. (9,301)

Long-term receivables recognized on the modified accrual basis in the funds during the current year is decreased because prior year recognition in the Statement of Activities using the full basis of accounting.

Intergovernmental receivables		(2,237,291)
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The issuance of long-term debt provides current financial resources to the governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.

Issuance of debt	\$ (21,477)	
Debt retirement	<u>152,218</u>	130,741

Receivables that do not meet the "measurable and available criteria are not recognized as revenue in the current year in the governmental funds. In the Statement of Activities they are recognized when levied and earned. (7,475)

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Compensated absences		<u>(18,798)</u>
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Change in net position of governmental activities **\$ 97,554**

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

NOTES TO THE FINANCIAL STATEMENTS

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 1 - Summary of Significant Accounting Policies

The City of Diamondhead, Mississippi, (the "City") was incorporated January 20, 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.

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

A. Financial Reporting Entity

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

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

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

Diamondhead Fire Protection District
Diamondhead Water and Sewer District

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

B. Basis of Presentation.

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

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 1 - Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Government-wide Financial Statements:

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

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

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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 when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider recognizes the liability to the City. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year.

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period.

MAJOR FUNDS

The City reports the following major Governmental Funds:

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

Contingency Fund – This fund accounts monies set assigned by council proclamation to be used to deposit funds to be used for future necessary expenditures as deemed necessary by the governing body.

ARRA Fund – This is used to account for financial resources received from the American Rescue and Recovery Act funds. In 2022, the city opted to use the “revenue loss” option that released these funds from the federal restrictions of the act. These funds will be used to repair infrastructure.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

D. Account Classifications

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

E. Use of Estimates

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

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 1 - Summary of Significant Accounting Policies (continued)

F. City Financial Policies for Significant Accounts

1. Deposits and Investments

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

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

2. Receivables

Receivables are shown net of an allowance for uncollectible accounts, where applicable. Miss. Code Ann. (1972) does not allow for write-off of debt owed to municipalities. The estimated uncollectible allowance amount is based on the aging of receivables, historical collection experience, and other relevant circumstances.

3. Interfund Transactions and Balances

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

4. Inventory and Prepaid Items

Inventories are valued at cost, which approximates market, using the first-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 1 - Summary of Significant Accounting Policies (continued)

F. City Financial Policies for Significant Accounts (continued)

5. Capital Assets (continued)

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

The following schedule details those thresholds, estimated useful lives and salvage value percentage of cost:

	Capitalization Threshold	Estimated Useful Life
Land	\$ -	N/A
Infrastructure	-	20 - 50 years
Buildings	10,000	40 Years
Improvements other than build	50,000	20 years
Mobile equipment	1,000	5-10 years
Furniture and equipment	1,000	5-10 years

6. Leases

The Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases* (GASB 87), to establish a single leasing model for accounting and reporting purposes. This guidance is intended to enhance the accountability, consistency and comparability of lease activities reported by governments. GASB 87 was implemented during fiscal year 2022.

Lessee

Capital Assets and Right to Use Lease Assets Capital assets and right to use lease assets purchased or acquired with an original cost as set in the Capital Assets capitalization policy are reported at historical cost or estimated historical cost. Contributed assets are reported at acquisition value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Lessor

Leases receivables with an initial, individual value of \$10,000 or more are recognized as follows: At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

City of Diamondhead, Mississippi
Notes to the Financial Statements
September 30, 2022

Note 1 - Summary of Significant Accounting Policies (continued)

F. City Financial Policies for Significant Accounts (continued)

6. Leases (continued)

The City uses the interest rate as the discount rate. When the interest rate is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease receivable are composed of fixed payments and purchase option prices that the lessee is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflow if certain changes occur that are expected to significantly affect the amount of the lease receivable. Deferred inflows of lease receipts are reported with other deferred inflows related to pension and lease receivables are reported with current assets on the Statement of Net Position.

7. Deferred Outflows/Inflows of Resources

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

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

Property tax for future reporting period/unavailable revenue – property taxes – Deferred inflows of resources should be reported when resources associated with imposed non-exchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

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

9. Long-term Liabilities

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

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

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 1 - Summary of Significant Accounting Policies (continued)

F. City Financial Policies for Significant Accounts (continued)

10. Compensated Absences

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

The City accrues unpaid vacation leave at the end of the fiscal year. The total compensated absence liability is reported on the government-wide financial statements. In governmental fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured.

11. Post Employment Benefits Other than Pensions

Deferred Compensation Plan

The City, as administered through the MS Deferred Compensation Plan, offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Service Code Section 457 and enacted by the Mississippi State Legislature. The 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.

12. Fund Balance Policies

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

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

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

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the City Council, the City's highest level of decision-making authority. This formal action is an order of the City Council as approved in the board minutes.

Assigned fund balance includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not classified as non-spendable and is neither restricted nor committed. Assignments of fund balance are created by management pursuant to authorization established by the Council.

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 1 - Summary of Significant Accounting Policies (continued)

F. City Financial Policies for Significant Accounts (continued)

12. Fund Balance Policies

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

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

13. Net Position

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

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

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

Unrestricted net position - All other net position not meeting the definition of “restricted” or “invested in capital assets, net of related debt.”

14. Intergovernmental Revenues in Governmental Funds

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

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 1 - Summary of Significant Accounting Policies (continued)

F. City Financial Policies for Significant Accounts (continued)

15. Property Tax Revenues

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

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

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

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

G. Reporting Changes and New Accounting Pronouncements for Future Implementation

Effective for fiscal year 2022 reporting, the City adopted GASB Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. It established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Note 2 – Stewardship, Compliance and Accountability

A. Budgetary Data

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

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

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 2 – Stewardship, Compliance and Accountability (continued)

B. Budgetary – GAAP Reporting Reconciliations

Annual budgets are adopted for the major and non-major governmental funds. 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 notes to the required supplementary information.

Note 3 – Prior Period Adjustments

During the current year, beginning net position and fund balances were restated from fiscal year ended September 30, 2022 as follows:

<i>Statement of Net Position</i>	
<i>Governmental Activities</i>	
Capital assets adjustment	\$ 469,752
Overall restatement of Net Position	<u>\$ 469,752</u>

Note 4 – Cash

A summary of cash at September 30, 2022 is as follows:

	Deposits with Financial Institutions		Cash on Hand	Total
	Pooled	Non-Pooled		
Governmental funds:				
General Fund	\$ 772,137	129,687	1,375	903,199
Contingency Fund		2,000,000	-	2,000,000
ARAP Fund	1,626,473	-	-	1,626,473
Other governmental funds	2,472,341	-	-	2,472,341
Total cash	<u>\$ 4,870,951</u>	<u>2,129,687</u>	<u>1,375</u>	<u>7,002,013</u>

The carrying amount of the city's total deposits with financial institutions at September 30, 2022, was \$7,000,638 and the bank balance was \$7,010,336. Of this amount \$4,223,580 is restricted for is restricted grant and bond purposes. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by §27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the City. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the City.

City of Diamondhead, Mississippi
Notes to the Financial Statements
September 30, 2022

Note 5 – Receivables

Receivables in the governmental activities at September 30, 2022, consisted of the following:

Taxes receivable:	
Property taxes	
Property taxes - current period	\$ 139,727
Property taxes - for future reporting period	2,957,393
Franchise taxes	81,178
Total taxes receivable	<u>3,178,298</u>
Intergovernmental receivable:	
Sales taxes	167,872
Shared revenue	2,700
Assessments receivable	16,393
Grants	471,560
Total intergovernmental receivable	<u>658,525</u>
Fines and forfeitures receivable:	
Court fines receivable	314,643
Less: allowance for doubtful accounts	(305,429)
Total fines and forfeitures receivable, net	<u>9,214</u>
Total receivables	<u><u>\$ 3,846,037</u></u>

Note 6 – Interfund Transactions and Balances

A. Due From/To Other Funds

Receivable	Payable	Amount
General Fund	Multi Modal Path Fund	\$ 80,000
General Fund	Rotten Bayou Public Access Fund	100,000
General Fund	East Aloha Improvement Fund	177,108
General Fund	Commerical District Fund	500,000
General Fund	East Aloha Improvement II Fund	300,000
General Fund	Noma Drive Public Access Fund	200,000
General Fund	GOMESA Marsh Erosion Fund	200,000
General Fund	Twin Lake Pier Fund	1,000
		<u><u>\$ 1,558,108</u></u>

Interfund transactions occur due to a time lag between the dates that the interfund goods and services are provided or reimbursable expenses occur and when payment is actually made.

B. Operating Transfers

Transfer in	Transfer out	Amount
Contingency Fund	General Fund	\$ 2,000,000
Emergency Watershed Fund	General Fund	16,311
East Aloha Improvement Fund	General Fund	275,000
East Aloha Improvement II Fund	General Fund	122,467
Commercial District Fund	General Fund	400,000
ARRA Fund	General Fund	10,719
		<u><u>\$ 2,824,497</u></u>

In 2022, the Council assigned \$2,000,000 to the Contingency Fund. The remaining transfers are the City's matching portion to grants for various capital projects.

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 7 – Capital assets

The following is a summary of governmental capital assets activity for the year ended September 30, 2022:

	Balance * 10/1/2021	Additions	Adjustments/ Sales	Balance 9/30/2022
Capital assets not being Depreciated:				
Land	\$ 8,477,672	333,739	-	8,811,411
Construction in progress	742,072	1,154,422	(580,979)	1,315,515
Total capital assets not being depreciated	9,219,744	1,488,161	(580,979)	10,126,926
Capital assets being depreciated:				
Infrastructure	65,488,262	234,962	580,979	66,304,203
Buildings and improvements	1,955,826	326,967	-	2,282,793
Improvements other than buildings	1,030	-	-	1,030
Mobile Equipment	2,070,470	214,802	(78,100)	2,207,172
Furniture & Equipment	210,464	62,844	(7,874)	265,434
Total capital assets being depreciated	69,726,052	839,575	495,005	71,060,632
Less accumulated depreciation for:				
Infrastructure	18,969,474	2,378,045	-	21,347,519
Buildings and improvements	277,038	51,789	-	328,827
Improvements other than buildings	254	51	-	305
Mobile Equipment	1,155,022	179,668	(70,160)	1,264,530
Furniture & Equipment	144,632	27,276	(6,513)	165,395
Total accumulated depreciation	20,546,420	2,636,829	(76,673)	23,106,576
Total capital assets being depreciated, net	49,179,632	(1,797,254)	571,678	47,954,056
Total capital assets, net	\$ 58,399,376	(309,093)	(9,301)	58,080,982

* Fiscal year ended 09/30/2021 has been restated - See Note 3 for details

Depreciation expense was charged to the following governmental functions:

General government	\$ 75,184
Public safety	48,891
Public works	2,491,531
Culture & recreation	21,223
	<u>\$ 2,636,829</u>

Commitments with respect to unfinished capital projects for the year ended September 30, 2022 are as follows:

	Expended to Date	Remaining Commitments
East Aloha Improvement Project	\$ 614,693	33,997
Commercial Area Transformation Project	297,314	66,090
Makiki Drive Drainage	580,979	89,861
Total Construction Commitments	<u>\$ 1,492,986</u>	<u>189,948</u>

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 8 – Leases

The City is a lessee for various non-cancellable leases of building and equipment. For leases that have a maximum possible term of 12 months or less at commencement, the City recognizes expense based on the provisions of the lease contract. For all other leases, other than short-term, the City recognized a lease and an intangible right-to-use lease asset.

At lease commencement, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized in depreciation on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

The City uses the interest rate as the discount rate. When the interest rate is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease receivable are composed of fixed payments and purchase option prices that the lessee is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflow if certain changes occur that are expected to significantly affect the amount of the lease receivable. Deferred inflows of lease receipts are reported with other deferred inflows related to pension and lease receivables are reported with current assets on the Statement of Net Position.

Leased assets for the year ended September 30, 2022 are as follows:

	Balance 10/1/2021	Additions	Amortization	Balance 9/30/2022
Buildings and improvements - City Hall	\$ 862,419	-	179,192	683,227
Furniture & Equipment - Public Works	313,787	-	8,790	304,997
Furniture & Equipment - Copiers	-	21,477	3,866	17,611
Total	<u>\$ 1,176,206</u>	<u>21,477</u>	<u>191,848</u>	<u>1,005,835</u>

On July 22, 2014, the City acquired its City Hall buildings and grounds through a capital lease agreement between Southern Mississippi Investment Co., Inc. and Hancock Bank. Under this agreement, Southern Mississippi Investment Co., Inc.'s purchase of the buildings and grounds was financed by a loan agreement with Hancock Bank. The Hancock Bank loan amount included funds to purchase and renovate the buildings and grounds. An assignment between the parties includes stipulations that Southern Mississippi Investment Co., Inc. assign all its rights, title, and interest in the lease agreement, including receiving rental payment, to Hancock Bank. Under the terms of the agreement, capital lease payments made by the City are paid directly to Hancock Bank as repayment of Southern Mississippi Investment Co, Inc.'s loan. The lease matures in 2029 and has an interest rate of 3.09%

On December 23, 2020, the City acquired public works equipment through a capital lease with The First Bank. The lease matures in 2025 and has an interest rate of 1.42%

During 2022, the City entered into a lease agreement with Cadence Bank for four copiers. The lease matures in 2025 and carries an interest rate of 2.96%.

City of Diamondhead, Mississippi
Notes to the Financial Statements
September 30, 2022

Note 8 – Leases (continued)

Leases - capital debt as reported in the Statement of Net Position is as follows:

Description and Purpose	Original Issue Amount	Amount Outstanding	Interest Rate	Maturity Date
A. Leases				
Southern Mississippi Investment Co./Hancock-Whitney Bank				
Leased asset: City hall, \$108,271 annually	1,286,415	672,280	3.09%	07/01/29
The First Bank				
Leased asset: Public works equipment, \$66,752 annually	320,000	257,792	1.42%	12/23/25
Cadence Bank				
Leased assets: 4 copiers, \$475 monthly	21,477	16,343	2.96%	09/15/25
Total Leases		<u>\$ 946,415</u>		

The following is a schedule by years of the total payments due as of September 30, 2022:

September 30,	Principal	Interest	Total
2023	\$ 155,877	24,847	180,724
2024	159,635	22,088	181,723
2025	163,489	17,234	180,723
2026	161,684	13,344	175,028
2027	98,825	9,447	108,272
2028-2029	206,905	9,639	216,544
	<u>\$ 946,415</u>	<u>96,599</u>	<u>1,043,014</u>

Note 9- Other Post Employment Benefits

Plan Description

The Mississippi Public Employees' Retirement System (PERS) offers the City's employees voluntary participation in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. 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.

Effective January 1, 1997, the Plan was amended by the State in accordance with the provisions of IRC Section 457(g). On that date, assets of the Plan were placed in trust by the State for the exclusive benefit of participants and their beneficiaries. The requirements of that IRC Section prescribe that the assets are no longer subject to the claims of the City's general creditors. Accordingly, the assets and the liabilities for the compensation deferred by plan participants were removed from the City's financial statements during the year ended September 30, 1997.

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.

City of Diamondhead, Mississippi
Notes to the Financial Statements
September 30, 2022

Note 10 – Long-term Debt

Debt outstanding as of September 30, 2022, consisted of the following:

	Balance 10/1/2021	Additions	Reductions	Balance 9/30/2022	Due within One Year
Capital debt:					
Capital leases	\$ 1,077,156	21,477	152,218	946,415	155,877
Noncapital debt:					
Compensated absences payable	55,852	81,851	60,247	77,456	10,844
 Total long-term debt	 \$ 1,133,008	 103,328	 212,465	 1,023,871	 166,721

Compensated absences will be paid from the funds from which the employees' salaries were paid which are generally the General Fund and Diamondhead Utilities Fund.

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, 2022, the amount of outstanding debt was equal to 8.58% of the latest property assessments.

Note 12 – Net Investment in Capital Assets

Net investment in capital assets:

Capital Assets	
Nondepreciable capital assets	\$ 10,126,926
Other capital assets	71,060,632
Less: accumulated depreciation	(23,106,576)
Less: outstanding balances of borrowings for capital asset acquisition:	
Capital leases	(946,415)
Less: material accounts payable and retainage payable at year end	(168,003)
Total Net Investment in Capital Assets	<u>\$ 56,966,564</u>

Note 13 – Property and Sales Tax Revenue

A. Property Tax Revenues

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

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 13 – Property and Sales Tax Revenue (continued)

A. Property Tax Revenues

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

The rates are expressed in terms of mills (i.e., ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt but exclusive of school bond and interest for the year ended September 30, 2022 was 29.5 mills or \$29.50 per \$1,000 of assessed valuation.

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

B. Sales Tax Revenues

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Diamondhead) back to the City monthly. General sales tax revenue reported in the General Fund was \$972,827.

Note 14 – Risk Management, Contingencies and Contract Commitments

A. Risk Management

Workman's Compensation Insurance - The City finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool.

The City pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability.

However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2021, to January 1, 2022. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

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

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 14 – Commitments and Contingencies (continued)

B. Contingencies

Federal Grants - The city has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the City. No provision for any liability that may result has been recognized in the City's financial statements.

Litigation - The City is potentially a 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 potential proceedings. However, the City's legal counsel believes that any ultimate liability resulting from these lawsuits, if any, will not have a material adverse effect on the financial condition of the City.

C. Commitments/Service Contracts

Police 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 is cancellable upon 60 days written notice by mutual agreement between parties.

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

Solid Waste Collection Services – In November 2013, the City entered into an interlocal agreement with Hancock County, Mississippi (County), whereby the County Tax Collector will provide solid waste fees collections for the City. Under the terms of the agreement, services commenced on January 1, 2020 and automatically renews annually. Under the agreement the City agrees to pay the County Tax Collector \$8,500 annually and agrees to allow the County to retain 3% of the gross collections as a commission to the County for all services necessary to carry out the terms of the agreement. The agreement can be terminated by either party.

Solid Waste Contract –Currently, the City's solid waste collections are provided through a contract between Hancock County Regional Solid Waste Authority (Authority) and Coastal Environmental Services of Louisiana, LLC. (Contractor). Under the terms of the contract, the Contractor will collect, haul, and dispose of solid waste generated by the City's residents for a monthly fee of \$11.88 per unit. The Contractor submits monthly invoices to the Authority for these services. The Authority bills the City for its respective portion of the Contractor's invoices.

City of Diamondhead, Mississippi

Notes to the Financial Statements

September 30, 2022

Note 15 – Jointly Governed Organization

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

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

Note 16 – Subsequent Events

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

Management of the City of Diamondhead, Mississippi evaluated the activity of the City through November 21, 2023 (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statement:

In November 2022, the City issued \$6,000,000 General Obligation Bonds, Series 2022 for the purpose of paying the cost of the infrastructure improvements.

REQUIRED SUPPLEMENTARY INFORMATION

City of Diamondhead, Mississippi
Statement of Revenues, Expenditures
and Changes in Fund Balance
General Fund
Budget to Actual - (Prepared on the Budgetary Basis)
For the Fiscal Year Ended September 30, 2022

	Original Budget	Final Budget	Actual Budgetary Basis	Variances Favorable (Unfavorable)	
				Original to Final	Final to Actual
Revenues:					
Property taxes	\$ 3,027,250	3,027,250	2,878,918	-	(148,332)
Licenses, commissions and other	453,400	453,400	174,526	-	(278,874)
Intergovernmental revenues	1,297,470	1,297,470	3,816,380	-	2,518,910
Fines and forfeitures	49,500	49,500	28,366	-	(21,134)
Miscellaneous	217,754	217,754	64,682	-	(153,072)
Non-revenue receipts	120,336	120,336	253,372	-	133,036
Total revenues	<u>5,165,710</u>	<u>5,165,710</u>	<u>7,216,244</u>	<u>-</u>	<u>2,050,534</u>
Expenditures:					
General government:	2,332,248	2,332,248	1,974,715	-	357,533
Public safety - police	1,084,037	1,084,037	1,029,287	-	54,750
Public works	2,038,525	2,038,525	2,157,402	-	(118,877)
Economic development	126,000	126,000	128,738	-	(2,738)
Debt service					
Capital lease	152,217	152,217	152,217	-	-
Interest	42,507	42,507	28,508	-	13,999
Total expenditures	<u>5,775,534</u>	<u>5,775,534</u>	<u>5,470,867</u>	<u>-</u>	<u>304,667</u>
Other Financing Sources and Uses					
Transfers out	533,186	533,186	2,824,497	-	(2,291,311)
Total appropriations	<u>6,308,720</u>	<u>6,308,720</u>	<u>8,295,364</u>	<u>-</u>	<u>(1,986,644)</u>
Excess (Deficiency) of Available Resources over Use of Resources	<u>\$ (1,143,010)</u>	<u>(1,143,010)</u>	<u>(1,079,120)</u>	<u>-</u>	<u>63,890</u>
Differences between budgetary and GAAP fund balances					
Change in fund balance - Budgetary Basis			(1,079,120)		
Accruals for expenses incurred but not paid			26,236		
Accruals for revenues recognized but not yet received			312,464		
Net Change in fund balance - Fund Financials			<u>\$ (740,420)</u>		

City of Diamondhead, Mississippi
Notes to the Required
Supplementary Information-Budgetary Schedules
For the Fiscal Year Ended September 30, 2022

A. Budgetary Information.

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

D. Budgetary Data

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

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

SUPPLEMENTAL INFORMATION

City of Diamondhead, Mississippi
Schedule of Surety Bonds
(Required by State of Mississippi)
For the Fiscal Year Ended September 30, 2022

<u>Position</u>	<u>Name</u>	<u>Amount</u>
Mayor	Nancy Depreo	\$ 100,000
Council	Gerard Maher	100,000
Council	Shane Finley	100,000
Council	Anna Liese	100,000
Council	John Cumberland	100,000
Council	Charles S. Clark	100,000
City Manager	Jon McCraw	50,000
City Clerk	Jeannie Klein	50,000
Deputy City Clerk	Tammy Garber	50,000
Finance Clerk	Andrea Galvin	50,000
Court Clerk	Lolita McSwain	50,000
Deputy Court Clerk	Lauren Prater	50,000
Building Official	Ronald Jones	50,000
Deputy Building Official	Beau King	50,000
Code Enforcement Officer	John Rich	50,000
Building Clerk	Tammy Braud	50,000
Comptroller	Vacant	50,000
Public Works Clerk	Ashley Boone	50,000

SPECIAL REPORTS

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

Certified Public Accountants

HANCOCK BANK BUILDING

2510 - 14TH STREET

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

Honorable Mayor and
City Council of
City of Diamondhead, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Diamondhead, Mississippi (the "City") as and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 21, 2023.

Internal Control Over Financial Reporting

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

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

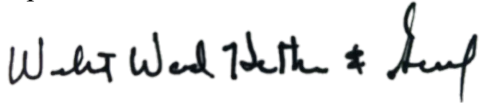
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Wright Ward Hatten & Guel".

Wright, Ward, Hatten and Guel
November 21, 2023

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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

Certified Public Accountants

HANCOCK BANK BUILDING

2510 - 14TH STREET

P.O. BOX 129

GULFPORT, MISSISSIPPI 39502

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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Honorable Mayor and
City Council of
City of Diamondhead, Mississippi

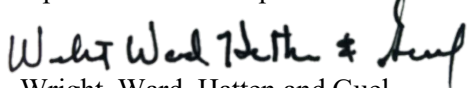
In planning and performing our audit of the financial statements of the City of Diamondhead, Mississippi for the year ended September 30, 2022, we considered the City's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to the City of Diamondhead, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated November 21, 2023, on the financial statements of the City of Diamondhead, Mississippi.

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

The results of our procedures performed to test compliance with certain state laws and regulations and our audit of the financial statements did not result in any material instances of noncompliance with state laws and regulations.

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.



Wright, Ward, Hatten and Guel

November 21, 2023

City of Diamondhead, Mississippi
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended September 30, 2022

SECTION 1 – SUMMARY OF AUDITOR’S RESULTS

Financial Statements:

1.	Type of auditor's report issued on the financial statements:	
	Governmental activities	Unmodified
	General and other major funds	Unmodified
	Aggregate remaining fund information	Unmodified
2.	Internal control over financial reporting:	
	a. Material weaknesses identified?	No
	b. Significant deficiencies identified?	
	be material weaknesses?	No
3.	Noncompliance material to the financial statements noted?	No

SECTION 2 – FINANCIAL STATEMENT FINDINGS

There were no financial statement findings noted during the fiscal year ended September 30, 2022.