

City of Diamondhead, Mississippi
Audited Financial Statements and Special Reports
For the Year Ended September 30, 2021

City of Diamondhead, Mississippi
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INTRODUCTORY SECTION

**City of Diamondhead, Mississippi
City Officials
September 30, 2021**

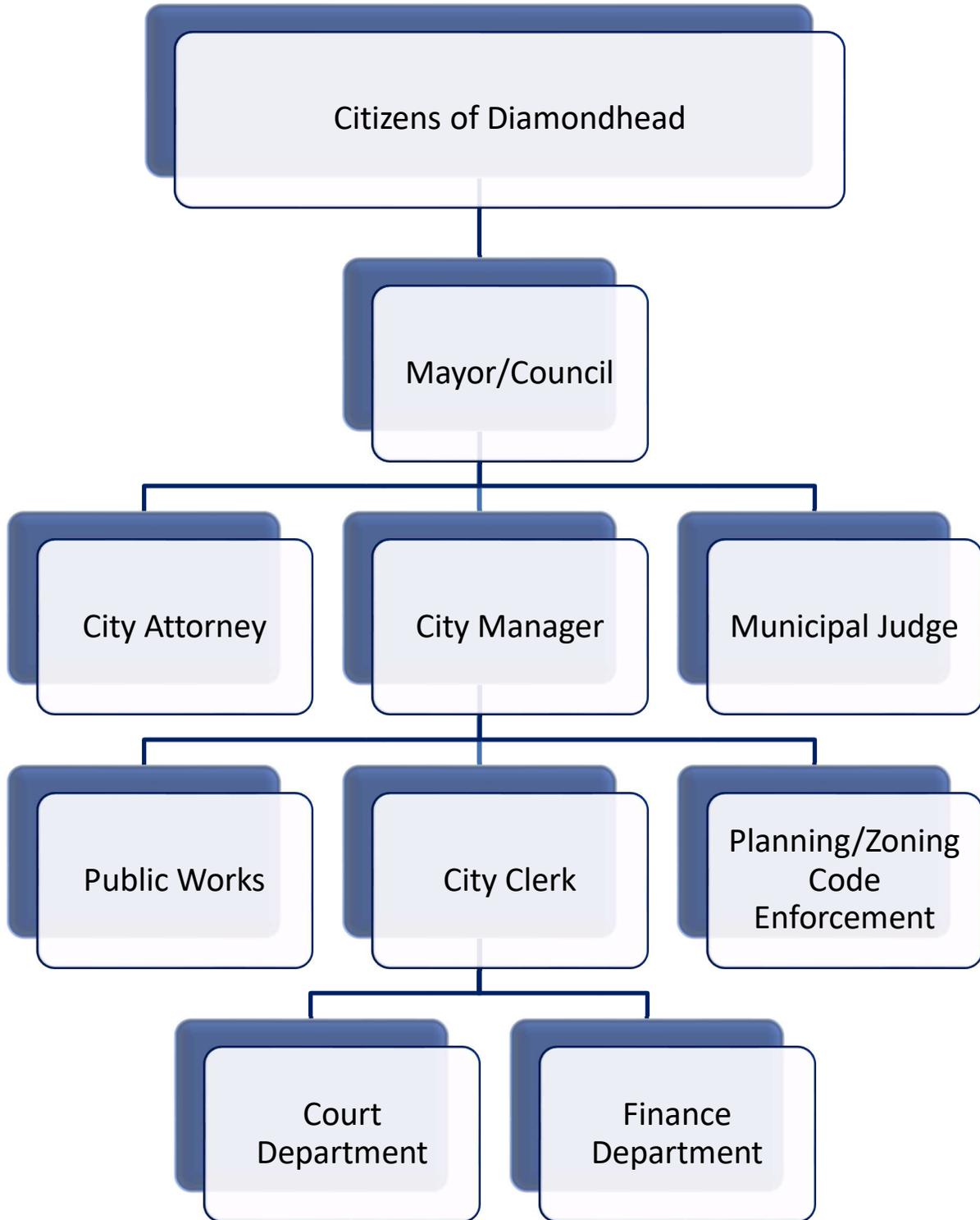
ELECTED OFFICIALS

Mayor	Nancy Depreo
Councilman-At-Large	Gerard Maher
Ward 1	Shane Finley
Ward 2	Alan Moran
Ward 3	Ricky Shepard
Ward 4	Charles S. Clark

APPOINTED OFFICIALS

City Manager	Michael Reso
City Clerk	Jeannie Klein
Municipal Court Judge	Hayes Johnson
City Attorney	Derek Cusick
Police Department	A.J. Gambino
Building Official	Ronald Jones
Public Works	Stanley Bychurch

City of Diamondhead, Mississippi
Organization Chart
September 30, 2021



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Diamondhead, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Diamondhead, Mississippi, (City) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Diamondhead, Mississippi, as of September 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Diamondhead, Mississippi's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, Schedule of Surety Bonds for City Officials, and the accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2022, on our consideration of the City of Diamondhead, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Diamondhead, Mississippi's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Diamondhead, Mississippi's internal control over financial reporting and compliance.

Necaise & Company PLLC

Necaise & Company PLLC
Gulfport, Mississippi
September 19, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS



This section of the City of Diamondhead, Mississippi's Annual Financial Report presents a narrative overview and comparative analysis of the financial activities of the City for the fiscal year ended September 30, 2021 and 2020. Readers are encouraged to consider the information presented here in conjunction with the basic financial statements that immediately follow.

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

The components of this annual financial report include:

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

Government-Wide Financial Highlights

- The total assets of the City exceeded total liabilities for the fiscal year ended September 30, 2021 by \$63,834,600 (net position). Of this amount \$3,278,679 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- Property tax receivable increased by \$85,550 compared to the previous year.
- General revenues amounted to \$4,924,654 or 54% of total revenues. This amount decreased \$134,312 from 2020. Program revenues amounted to \$4,191,575 or 46% of total revenues, which increased \$2,813,609 from 2020. The increase was primarily due to the City receiving grant funding for public works projects.
- Capital assets decreased by \$1,604,030 during 2021. The decrease is primarily due to annual depreciation, which exceeds \$817,887 of new assets placed in service.
- Total outstanding debt increased by \$237,668. The increase is due to a new capital lease entered into by the City for public works equipment.
- Current liabilities decreased by \$360,170. The decrease is mostly due to roadway improvements incurred in fiscal year 2020 but paid in fiscal year 2021.

Fund Statement Financial Highlights

- *General Fund* – This fund is used for the general operations of the City. The General Fund had \$4,928,600 in revenues and \$6,913,243 in expenditures in the current year. The General Fund's fund balance decreased \$2,006,277 during fiscal year 2021.
- *AR&R Fund* – This fund is used for disbursements from the \$989,281 grant received from the American Rescue and Recover Act passed in 2021. No disbursements were made from this fund in fiscal year 2021.
- *Emergency Watershed Protection* – This fund is a capital projects fund to account for inflows and outflows for Emergency Watershed Protection. The City disbursed \$321,402 during fiscal year 2021 and this fund has a grant receivable of \$225,001 as of September 30, 2021.

Overview of the Financial Statements

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

Basic Financial Statements for the City consist of Government-Wide Statements (Statement of Net Position and the Statement of Activities), Governmental Fund Statements (Balance Sheet, Statement of Revenues, Expenditures, and Changes in Fund Balances), Fiduciary Fund Statements (Statement of Fiduciary Assets and Liabilities), and the accompanying Notes to the Financial Statements.

Government-Wide Statements provide information about the City's assets and liabilities and its revenues and expenses using the accrual basis of accounting similar to the accounting used by private sector companies. The Government-Wide Financial Statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the City include capital projects, general government, public safety, public works, solid waste, and culture and recreation.

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

Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established several funds, which account for the multitude of services provided to residents. However, these fund financial statements focus on the City's most significant funds. The City of Diamondhead reported four major funds for fiscal year 2021.

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

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

RSI and Other Information

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

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

Financial Analysis

Statement of Net Position and the Statement of Activities

These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid but rather when they are incurred. They report the City's net position and the changes in those assets. This change in assets is important because it tells the reader whether the financial position of the City has improved or diminished.

In the Statement of Activities, the City's activities are reported as governmental activities, which include all of the City's services including general government, public safety, public works, building/planning and zoning, community services, and solid waste. As of September 30, 2021, the City has no component units.

The following table (Table 1) presents the condensed statement of net position as of September 30, 2021 and 2020, derived from the City's Statement of Net Position (Exhibit 1).

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

	2021	2020	Change
Current and other assets	\$ 10,663,697	\$ 9,504,850	\$ 1,158,847
Capital assets, net	<u>57,929,624</u>	<u>59,533,654</u>	<u>(1,604,030)</u>
Total assets	<u>68,593,321</u>	<u>69,038,504</u>	<u>(445,183)</u>
Current and other liabilities	672,315	1,032,485	(360,170)
Long-term debt	<u>1,077,156</u>	<u>839,488</u>	<u>237,668</u>
Total liabilities	<u>1,749,471</u>	<u>1,871,973</u>	<u>(122,502)</u>
Total deferred inflows	<u>3,009,250</u>	<u>2,923,700</u>	<u>85,550</u>
Net position:			
Net investment in capital assets	56,852,468	58,694,166	(1,841,698)
Restricted	3,703,453	170,322	3,533,131
Unrestricted	<u>3,278,679</u>	<u>5,378,343</u>	<u>(2,099,664)</u>
Total net position	<u>\$ 63,834,600</u>	<u>\$ 64,242,831</u>	<u>\$ (408,231)</u>

The City's net position at fiscal year-end is \$63,834,600. This is a \$408,231 decrease from last year's net position of \$64,242,831. The decrease is primarily due to annual depreciation on capital assets and increase in long-term debt.

The City reported a positive balance in net position for both 2021 and 2020. The following is a summary of the more significant changes:

- Cash, receivables, and other assets increased by \$1,158,847. Most of the increase is due to intergovernmental receivables, which consist of grant funding to be received from FEMA relating to Hurricane Zeta.
- Long-term debt increased by \$237,668. This increase was due to a new capital lease.
- Capital assets decreased by \$1,604,030, regardless of new capital assets purchased totaling \$817,887. The decrease was primarily due to current year depreciation.

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

The following table (Table 2) presents the City's condensed statement of activities for the fiscal years ended September 30, 2021 and 2020. For more detailed information see the Statement of Activities (Exhibit 2).

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

	2021	2020	Change
<i>Revenues</i>			
Program revenues	\$ 4,191,575	\$ 1,377,966	\$ 2,813,609
General revenues	<u>4,924,654</u>	<u>5,058,966</u>	<u>(134,312)</u>
Total revenues	<u>9,116,229</u>	<u>6,436,932</u>	<u>2,679,297</u>
<i>Expenses</i>			
General government	1,700,604	1,702,388	(1,784)
Public safety	1,064,066	930,543	133,523
Public works	6,680,967	3,997,270	2,683,697
Culture & recreation	3,998	14,924	(10,926)
Conservation of natural resources	2,838	283,601	(280,763)
Economic development & assistance	43,183	190,803	(147,620)
Interest on long-term debt	<u>28,804</u>	<u>30,237</u>	<u>(1,433)</u>
Total expenses	<u>9,524,460</u>	<u>7,149,766</u>	<u>2,374,694</u>
Increase (decrease) in net position	<u>(408,231)</u>	<u>(712,834)</u>	<u>304,603</u>
Net Position, beginning	<u>64,242,831</u>	<u>64,955,665</u>	<u>(712,834)</u>
Net Position, ending	<u>\$ 63,834,600</u>	<u>\$ 64,242,831</u>	<u>\$ (408,231)</u>

The following is a summary of the significant changes from the Statement of Activities:

- Total revenues increased by \$2,679,297. The City received grant income to fund capital projects during the fiscal year.
- Total expenses increased by \$2,374,694. The City disbursed for capital projects with grant funding.
- Net position decreased by \$408,231 in 2021 and decreased by \$712,834 in 2020. The change in decrease in net position is \$304,603.

Budgetary Highlights

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

During the course of 2021, the City amended its budget. All recommendations for a budget change come from the City Clerk to the Council for approval. State law does not allow budget changes that modify functional levels of budget amounts within a department without council approval. With the General Fund supporting many of our major activities, such as our public safety expenditures, public works, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or overspending by individual departments.

Capital Assets

Net capital assets at year-end are \$57,929,624, which reflects a \$1,604,030 decrease from the prior year. The significant decrease is primarily due to current year depreciation expense.

Debt Administration

At year-end, the City had \$1,077,156 in outstanding debt. The debt consists of two capital leases. One capital lease is for the City Hall building and grounds and the other is for public works equipment acquired during fiscal year 2021. For more information, see the accompanying notes to the financial statements.

Economic Factors

The Coronavirus pandemic had a major impact on most industries in 2021. The City as a whole has fared well. Sales tax revenue increased, which is likely due to the spending encouraged by federal stimulus funds received by city residents. In addition, new grant opportunities were available that allowed the City to recoup pandemic related costs. The City should be mindful of potential decreases in revenue now that stimulus funds are mostly exhausted. The reduction of disposable income and the historic levels of inflation faced by consumers will likely result in a reduction of both property and sales tax.

Contacting the City's Management

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

City of Diamondhead, MS
Attention: Jon McCraw, City Manager
5000 Diamondhead Circle
Diamondhead, MS 39525

FINANCIAL STATEMENTS

City of Diamondhead, Mississippi
Statement of Net Position
September 30, 2021

Exhibit 1

ASSETS

Cash	\$ 4,580,411
Property tax receivable	3,009,250
Franchise tax receivable	79,206
Fines receivable (net of allowance for uncollectibles of \$355,667)	16,688
Prepaid expenses	55,266
Intergovernmental receivables	2,867,127
Other assets	55,749
Capital assets:	
Nondepreciable capital assets	9,051,277
Depreciable capital assets, net	48,878,347
Total Assets	<u>68,593,321</u>

LIABILITIES

Accounts payable and accrued liabilities	442,072
Due to other governmental agencies	140,242
Accrued interest payable	9,331
Other payables	32,856
Long-term liabilities:	
Compensated absences	47,814
Due within one year	
Capital debt	147,084
Due in more than one year	
Capital debt	930,072
Total Liabilities	<u>1,749,471</u>

DEFERRED INFLOWS OF RESOURCES

Property tax for future reporting period	<u>3,009,250</u>
Total Deferred Inflows of Resources	<u>3,009,250</u>

NET POSITION

Net investment in capital assets	56,852,468
Restricted for:	
General government	981,438
Public safety	10,846
Public works	2,379,905
Conservation of natural resources	37,449
Economic development	293,815
Unrestricted	<u>3,278,679</u>
Total Net Position	<u>\$ 63,834,600</u>

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

City of Diamondhead, Mississippi
Statement of Activities
For the Year Ended September 30, 2021

Exhibit 2

<i>Functions/Programs</i>	<i>Expenses</i>	<i>Program Revenues</i>			<i>Net (Expense)</i>
		<i>Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Capital Grants and Contributions</i>	<i>Revenue and Changes in Net Position</i>
					<i>Governmental Activities</i>
Governmental activities					
General government	\$ 1,700,604	\$ -	\$ -	\$ 989,281	\$ (711,323)
Public safety	1,064,066	-	-	-	(1,064,066)
Public works	6,359,565	557,469	-	2,416,986	(3,385,110)
Culture and recreation	3,998	-	-	-	(3,998)
Conservation of natural resources	324,240	-	-	227,839	(96,401)
Economic development and assistance	43,183	-	-	-	(43,183)
Interest on long-term debt	28,804	-	-	-	(28,804)
Total governmental activities	<u>\$ 9,524,460</u>	<u>\$ 557,469</u>	<u>\$ -</u>	<u>\$ 3,634,106</u>	<u>\$ (5,332,885)</u>
General revenues:					
					\$ 3,181,209
					877,858
					210,879
					291,539
					55,457
					<u>307,712</u>
					<u>4,924,654</u>
					<u>(408,231)</u>
					<u>64,242,831</u>
					<u>\$ 63,834,600</u>

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

City of Diamondhead, Mississippi
Balance Sheet – Governmental Funds
September 30, 2021

Exhibit 3

	<u>General Fund</u>	<u>AR&R Fund</u>	<u>Emergency Watershed Protection</u>	<u>Commercial District Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
ASSETS						
Cash	\$ 2,291,241	\$ 1,000,000	\$ 6,703	\$ 762,900	\$ 519,567	\$ 4,580,411
Receivables:						
Property tax	3,009,250	-	-	-	-	3,009,250
Fines, net	16,688	-	-	-	-	16,688
Franchise tax	79,206	-	-	-	-	79,206
Due from other funds	830,000	-	-	-	-	830,000
Intergovernmental receivables	335,955	-	225,001	30,915	37,965	629,836
Prepaid expenses	55,266	-	-	-	-	55,266
Other assets	55,749	-	-	-	-	55,749
Total Assets	<u>\$ 6,673,355</u>	<u>\$ 1,000,000</u>	<u>\$ 231,704</u>	<u>\$ 793,815</u>	<u>\$ 557,532</u>	<u>\$ 9,256,406</u>
LIABILITIES						
Accounts payable	\$ 226,836	\$ -	\$ 144,255	\$ -	\$ 70,981	\$ 442,072
Intergovernmental payables	99,715	-	-	-	40,527	140,242
Due to other funds	-	-	50,000	500,000	280,000	830,000
Other payables	42,187	-	-	-	-	42,187
Total Liabilities	<u>368,738</u>	<u>-</u>	<u>194,255</u>	<u>500,000</u>	<u>391,508</u>	<u>1,454,501</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	3,009,250	-	-	-	-	3,009,250
Unavailable revenue - fines	16,688	-	-	-	-	16,688
Total Deferred Inflows of Resources	<u>3,025,938</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,025,938</u>
FUND BALANCES						
Committed:						
General government	-	1,000,000	-	-	-	1,000,000
Public works	-	-	-	-	166,024	166,024
Conservation of natural resources	-	-	37,449	-	-	37,449
Economic development	-	-	-	293,815	-	293,815
Unassigned	3,278,679	-	-	-	-	3,278,679
Total Fund Balances	<u>3,278,679</u>	<u>1,000,000</u>	<u>37,449</u>	<u>293,815</u>	<u>166,024</u>	<u>4,775,967</u>
Total Liabilities and Fund Balances	<u>\$ 6,673,355</u>	<u>\$ 1,000,000</u>	<u>\$ 231,704</u>	<u>\$ 793,815</u>	<u>\$ 557,532</u>	<u>\$ 9,256,406</u>

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

City of Diamondhead, Mississippi
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position
September 30, 2021

Exhibit 3-1

Total Fund Balance - Governmental Funds	\$ 4,775,967
Total net position reported for governmental activities in the statement of net position is different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$ 18,183,541.	57,929,624
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Fine receivable	16,688
Intergovernmental receivable	2,237,291
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the funds.	
Compensated absences	(47,814)
Capital debt	<u>(1,077,156)</u>
Total Net Position - Governmental Activities	<u>\$ 63,834,600</u>

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

City of Diamondhead, Mississippi

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2021

	General Fund	AR&R Fund	Emergency Watershed Protection	Commercial District Fund	Other Governmental Funds	Totals
REVENUES						
Property taxes	\$ 3,181,209	\$ -	\$ -	\$ -	\$ -	\$ 3,181,209
General sales taxes	877,858	-	-	-	-	877,858
Franchise taxes	291,539	-	-	-	-	291,539
Road and bridge privilege taxes	210,879	-	-	-	-	210,879
Licenses, commissions and other revenue	168,502	-	-	-	-	168,502
Fines and forfeitures	54,146	-	-	-	-	54,146
Intergovernmental revenues	18,675	989,281	225,001	30,915	237,267	1,501,139
Charges for services	-	-	-	-	557,469	557,469
Interest	52,826	-	-	-	2,631	55,457
Other revenues	72,966	-	-	-	-	72,966
Total revenues	<u>4,928,600</u>	<u>989,281</u>	<u>225,001</u>	<u>30,915</u>	<u>797,367</u>	<u>6,971,164</u>
EXPENDITURES						
Current:						
General government	1,658,141	-	-	-	-	1,658,141
Public safety	1,070,715	-	-	-	23,062	1,093,777
Public works	4,000,518	-	-	-	737,448	4,737,966
Conservation of natural resources	-	-	321,402	-	2,838	324,240
Economic development and assistance	72,733	-	-	37,100	-	109,833
Debt service:						
Capital lease	82,332	-	-	-	-	82,332
Interest	28,804	-	-	-	-	28,804
Total expenditures	<u>6,913,243</u>	<u>-</u>	<u>321,402</u>	<u>37,100</u>	<u>763,348</u>	<u>8,035,093</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,984,643)</u>	<u>989,281</u>	<u>(96,401)</u>	<u>(6,185)</u>	<u>34,019</u>	<u>(1,063,929)</u>
OTHER FINANCING SOURCES (USES)						
Long-term capital debt issuance	320,000	-	-	-	-	320,000
Transfers in	51	10,719	72,600	300,000	11	383,381
Transfers out	(383,330)	-	-	-	(51)	(383,381)
Sale of assets	41,645	-	-	-	-	41,645
Total other financing sources (uses)	<u>(21,634)</u>	<u>10,719</u>	<u>72,600</u>	<u>300,000</u>	<u>(40)</u>	<u>361,645</u>
Net change in fund balances	(2,006,277)	1,000,000	(23,801)	293,815	33,979	(702,284)
Fund balances, October 1, 2020	<u>5,284,956</u>	<u>-</u>	<u>61,250</u>	<u>-</u>	<u>132,045</u>	<u>5,478,251</u>
Fund balances, September 30, 2021	<u>\$ 3,278,679</u>	<u>\$ 1,000,000</u>	<u>\$ 37,449</u>	<u>\$ 293,815</u>	<u>\$ 166,024</u>	<u>\$ 4,775,967</u>

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

City of Diamondhead, Mississippi
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2021

Exhibit 4-1

Net Changes in Fund Balances - Governmental Funds	\$ (702,284)
<p>The change in net position reported for governmental activities in the statement of activities is different because: Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlays	1,124,559
Depreciation expense	(2,686,546)
<p>In the Statement of Activities, only gain and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the loss.</p>	
	(42,043)
<p>Fine revenue recognized on the modified cash basis in the funds during the current year is increased because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.</p>	
	12,099
<p>Road & bridge privilege tax recognized on the modified accrual basis in the funds during the current year is decreased because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.</p>	
Current year accrual	2,237,291
Recognized on Statement of Net Position in the prior year	(104,324)
<p>Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount of debt repayments.</p>	
Proceeds from debt issuance	(320,000)
Principal payments	82,332
<p>Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:</p>	
Compensated absences	(9,315)
Changes in Net Position of Governmental Activities	<u>\$ (408,231)</u>

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

City of Diamondhead, Mississippi
Statement of Fiduciary Assets and Liabilities
September 30, 2021

Exhibit 5

Assets

Current assets:

Cash	\$ 14,173
Other receivables	<u>16,393</u>
Total assets	<u><u>30,566</u></u>

Liabilities

Current liabilities:

Amounts held in custody of others	14,173
Due to other governments	<u>16,393</u>
Total liabilities	<u><u>\$ 30,566</u></u>

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 1: Summary of Significant Accounting Policies

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

Reporting Entity

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

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

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

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

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

Diamondhead Fire 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.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 1: Summary of Significant Accounting Policies (continued)

Basis of Presentation

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

Measurement Focus and Basis of Accounting

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

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

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 1: Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

The City reports four major Governmental Funds for 2021:

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

AR&R Fund – This fund is used to account for all activities related to the funds received for the American Rescue and Recover and Act.

Emergency Watershed Protection – This fund is used to account for all activities related to Emergency Watershed Protection.

Commercial District Fund – This fund is used to account for all activities related to improvements to the commercial district.

Additionally, the City reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

FIDUCIARY FUND TYPE

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

Account Classifications

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

Deposits and Investments

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

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

Receivables

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 1: Summary of Significant Accounting Policies (continued)

Interfund Transactions and Balances

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

Prepays

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

Capital Assets

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

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

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

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

The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life (years)
Land	\$ -	N/A
Infrastructure	-	20-50
Buildings	10,000	40
Improvements other than buildings	5,000	20
Mobile equipment	1,000	5-10
Furniture and equipment	1,000	5-10
Leased property under capital leases	*	*

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 1: Summary of Significant Accounting Policies (continued)

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

Deferred Outflows/Inflows of Resources

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

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

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

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

Long-term Liabilities

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

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

Equity Classifications

Government-wide Financial Statements:

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

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

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

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

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 1: Summary of Significant Accounting Policies (continued)

Equity Classifications (continued)

Fund Financial Statements:

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

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

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

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

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

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

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.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 1: Summary of Significant Accounting Policies (continued)

Intergovernmental Revenues in Governmental Funds

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

Compensated Absences

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

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

The compensated absences liability was computed using the specific identification method whereby the actual number of vacation hours is multiplied by the employee’s hourly rate at September 30, 2021. The resulting liability is then increased to include payroll taxes that the City is required to pay upon liquidation of the liability.

Use of Estimates

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

Note 2: Cash

Primary Government

The carrying amount of the City’s total deposits with financial institutions at September 30, 2021, was \$4,594,584, and the bank balance was \$4,674,695. The collateral for public entities’ deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity’s funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 3: Interfund Transactions and Balances

The following is a summary of interfund balances at September 30, 2021:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Emergency Watershed Protection	\$ 50,000
	Commercial District Fund	500,000
	Other Governmental Funds	280,000
		<u>\$ 830,000</u>

Transfers In/Out

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 51
Emergency Watershed Protection	General Fund	72,600
Commercial District Fund	General Fund	300,000
AR&R Fund	General Fund	10,719
Other Governmental Funds	General Fund	11
		<u>\$ 383,381</u>

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

Note 4: Intergovernmental Receivables

Intergovernmental receivables at September 30, 2021, consisted of the following:

<i>Description</i>	<u>Amount</u>
Emergency watershed protection	\$ 225,001
Due from state	238,028
Various federal and local sources	166,807
Intergovernmental receivables, Exhibit 3	<u>629,836</u>
Long-term grants receivable	<u>2,237,291</u>
Intergovernmental receivables, Exhibit 1	<u>\$ 2,867,127</u>

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 5: Capital Assets

	<i>Balance</i> <u>10/1/2020</u>	<i>Additions</i>	<i>Reductions</i>	<i>Adjustments/ Transfers</i>	<i>Balance</i> <u>9/30/2021</u>
Capital assets, not being depreciated					
Land	\$ 8,265,663	\$ 43,542	\$ -	\$ -	\$ 8,309,205
Construction in progress	<u>478,942</u>	<u>758,281</u>	<u>-</u>	<u>(495,151)</u>	<u>742,072</u>
Total capital assets, not being depreciated	<u>8,744,605</u>	<u>801,823</u>	<u>-</u>	<u>(495,151)</u>	<u>9,051,277</u>
Capital assets, being depreciated					
Infrastructure	64,863,151	477,726	-	-	65,340,877
Building and improvements	1,929,841	17,425	-	-	1,947,266
Improvement other than buildings	1,030	-	-	-	1,030
Mobile equipment	1,995,331	108,476	(203,112)	-	1,900,695
Furniture and equipment	<u>183,237</u>	<u>214,260</u>	<u>(45,925)</u>	<u>-</u>	<u>351,572</u>
Total capital assets, being depreciated	<u>68,972,590</u>	<u>817,887</u>	<u>(249,037)</u>	<u>-</u>	<u>69,541,440</u>
Less accumulated depreciation for:					
Infrastructure	16,669,113	2,332,922	-	-	19,002,035
Building and improvements	229,740	53,172	-	-	282,912
Improvement other than buildings	150	-	-	-	150
Mobile equipment	1,155,583	267,189	(183,924)	-	1,238,848
Furniture and equipment	<u>128,955</u>	<u>33,263</u>	<u>(23,070)</u>	<u>-</u>	<u>139,148</u>
Total accumulated depreciation	<u>18,183,541</u>	<u>2,686,546</u>	<u>(206,994)</u>	<u>-</u>	<u>20,663,093</u>
Total capital assets, being depreciated, net	<u>50,789,049</u>	<u>(1,868,659)</u>	<u>(42,043)</u>	<u>-</u>	<u>48,878,347</u>
Capital assets, net	<u>\$ 59,533,654</u>	<u>\$ (1,066,836)</u>	<u>\$ (42,043)</u>	<u>\$ (495,151)</u>	<u>\$ 57,929,624</u>

Depreciation expense was charged to the following functions:

General government	\$ 90,374
Public safety	76,070
Public works	2,498,904
Culture and recreation	<u>21,198</u>
	<u>\$ 2,686,546</u>

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 5: Capital Assets (continued)

Commitments with respect to unfinished capital projects at September 30, 2021, consisted of the following:

<u>Description</u>	<u>Remaining Financial Commitment</u>	<u>Expected Completion Date</u>
Montjoy Creek Public Access	548,610	September 2023
Emergency Watershed	144,255	November 2021
Multi Modal Path	100,000	September 2023
East Aloha Improvements	3,013	August 2022
	<u>\$ 795,878</u>	

Note 6: Claims and Judgments

Risk Financing

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

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

Note 7: Capital Leases

As Lessee:

The City is obligated for the following capital assets acquired through capital leases as of September 30, 2021:

<u>Class of Property</u>	<u>Governmental Activities</u>
Building and grounds	2,234,408
Public works equipment	320,000
Less: accumulated depreciation	<u>(324,621)</u>
Leased property under capital lease	<u>2,229,787</u>

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 8: Long-term Debt

Debt outstanding as of September 30, 2021, consisted of the following:

	<i>Original Amount</i>	<i>Balance 9/30/2021</i>	<i>Maturity</i>	<i>Interest Rate</i>
<i>Capital Lease:</i>				
City Hall	\$ 1,286,415	\$ 757,156	2029	3.09%
Public Works Equipment	320,000	320,000	2025	1.42%
<i>Total Outstanding Debt</i>	<u>\$ 1,606,415</u>	<u>\$ 1,077,156</u>		

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

<i>Year Ending September 30,</i>	<i>Capital Lease</i>	
	<i>Principal</i>	<i>Interest</i>
2022	147,084	27,940
2023	150,589	24,434
2024	154,189	20,835
2025	157,880	17,144
2026	95,862	12,409
2027-2030	371,552	20,020
Total	<u>\$ 1,077,156</u>	<u>\$ 122,782</u>

Capital Leases

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

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.

Interest Expense

For year ended September 30, 2021, \$28,804 in interest was expensed and is included in the Statement of Activities under interest expense.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 8: Long-term Debt (continued)

The following is a summary of change in long-term liabilities and obligations for the year ended September 30, 2021:

	<i>Balance</i> <u>10/1/2020</u>	<i>Additions</i>	<i>Payments</i>	<i>Balance</i> <u>9/30/2021</u>	<i>Due Within</i> <u>One Year</u>
Capital leases	839,488	320,000	(82,332)	1,077,156	147,084
Compensated absences	43,665	15,841	(3,654)	55,852	8,038
Total	<u>\$ 883,153</u>	<u>\$ 335,841</u>	<u>\$ (85,986)</u>	<u>\$ 1,133,008</u>	<u>\$ 155,122</u>

Compensated absences will be paid from the funds from which the employee's salaries were paid; which is generally the General Fund.

Note 9: Commitments and Contingencies

Federal Grants

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

Litigation

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

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

Lease Commitments

Non-cancellable operating leases at September 30, 2021 are as follows:

- In February 2017, the City entered into a lease agreement for a copier located at the City Hall. The lease agreement is for sixty (60) months with payments of \$187 per month.
- In April 2017, the City entered into a lease agreement for a copier located at the Public Works office. The lease agreement is for sixty (60) months with payments of \$82 per month.
- In October 2018, the City entered into a lease agreement for a copier located at the Building Department Office. The lease agreement is for sixty (60) months with payments of \$281 per month.
- In May 2019, the City entered into a lease agreement for license plate readers. The lease agreement is for sixty (60) months with payments of \$1,265 per month.
- In September 2021, the City entered into a lease agreement for four (4) copiers. The lease agreement is for forty-eight (48) months with payments of \$475 per month.

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 9: Commitments and Contingencies (continued)

Lease Commitments (continued)

The future non-cancellable lease obligation of these leases at September 30, 2021 is as follows:

<u>Year Ended September 30,</u>	<u>Total</u>
2022	25,286
2023	24,252
2024	16,101
2025	<u>5,700</u>
Total	<u>\$ 71,339</u>

Interlocal Agreements and Service Contracts

Police Protection Services

In September 2012, as approved by the Mississippi State Attorney General and as provided by Miss. Code Ann. (1972), §17-13-1 and §17-13-5. *et seq.*, the City entered into an interlocal cooperation agreement with Hancock County, Mississippi (County), whereby the County will provide all police protection, animal control, investigative services, and other purposes, including 911 services to the City. This agreement is cancellable upon 60 days written notice by mutual agreement between parties.

Tax Collection Services

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

Delinquent Taxes Collection Services

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

Solid Waste Fees Collections Services

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 9: Commitments and Contingencies (continued)

Solid Waste Collections

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

Note 10: No Commitment Debt (Not Included in Financial Statements)

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

Note 11: Jointly Governed Organizations

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

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

Note 12: Deferred Compensation Plan

Plan Description

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

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

Funding Policy

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

City of Diamondhead, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2021

Note 13: Changes in Accounting Standards

The Governmental Accounting Standards Board issued GASB 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* in May 2020. The objective of this Statement was to provide temporary relief to governments in light of the Covid-19 pandemic by postponing effective dates of certain Statements and Implementation Guides. The effective dates of GASB 83-84, GASB 88-93, and Implementation Guides No. 2017-3, 2018-1, 2019-1, and 2019-2 were postponed one year.

The effective dates of the following pronouncements were postponed by 18 months:

- Statement No. 87, *Leases*. Effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter.

GASB 84, *Fiduciary Activities*, was implemented during fiscal year 2021. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. As of the date of this report, this Statement is not applicable to the City.

Note 14: Subsequent Events

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

Management of the City of Diamondhead evaluated the activity of the City through September 19, 2022, the date the financial statements were available to be issued and determined that no subsequent events occurred requiring disclosure in the notes to the financial statements. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

REQUIRED SUPPLEMENTARY INFORMATION

City of Diamondhead, Mississippi
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
For the Year Ended September 30, 2021
UNAUDITED

General Fund

	<i>Original</i>	<i>Final</i>	<i>Actual</i>	<i>Variance with</i>
	<i>Budget</i>	<i>Budget</i>	<i>(Budgetary</i>	<i>Final Budget</i>
	<u>Budget</u>	<u>Budget</u>	<i>Basis)</i>	<i>Positive</i>
				<i>(Negative)</i>
<i>Revenues</i>				
Property taxes	\$ 3,184,700	\$ 3,216,700	\$ 3,186,640	\$ (30,060)
General sales taxes	708,000	808,000	877,858	69,858
Franchise taxes	285,800	285,800	291,539	5,739
Road and bridge privilege taxes	204,000	216,000	110,034	(105,966)
Licenses, commission and other revenue	129,200	172,350	168,135	(4,215)
Fines and forfeitures	67,600	52,600	78,023	25,423
Intergovernmental revenues	15,000	2,058,560	18,675	(2,039,885)
Interest income	102,000	52,822	52,825	3
Miscellaneous	21,898	367,377	67,898	(299,479)
Total revenues	<u>4,718,198</u>	<u>7,230,209</u>	<u>4,851,627</u>	<u>(2,378,582)</u>
<i>Expenses</i>				
<i>Current:</i>				
General government	1,426,964	1,868,843	1,396,712	472,131
Public safety	1,323,379	1,507,633	1,332,138	175,495
Public works	1,993,077	4,725,901	4,008,794	717,107
Economic development and assistance	111,650	115,850	72,733	43,117
<i>Debt service:</i>				
Capital lease	145,861	145,861	82,332	63,529
Interest	32,268	32,268	18,800	13,468
Total expenditures	<u>5,033,199</u>	<u>8,396,356</u>	<u>6,911,509</u>	<u>1,484,847</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(315,001)</u>	<u>(1,166,147)</u>	<u>(2,059,882)</u>	<u>(893,735)</u>
<i>Other Financing Sources</i>				
Sale of asset	-	41,645	41,645	-
Proceeds from capital lease	-	-	320,000	320,000
Transfers in	-	-	51	51
Transfers out	120,000	492,600	383,330	(109,270)
Total other financing sources (uses)	<u>120,000</u>	<u>534,245</u>	<u>745,026</u>	<u>210,781</u>
Net change in fund balance	(195,001)	(631,902)	(1,314,856)	(682,954)
Fund balance, October 1, 2020	5,016,426	5,016,426	5,016,426	-
Fund balance, September 30, 2021	<u>\$ 4,821,425</u>	<u>\$ 4,384,524</u>	<u>\$ 3,701,570</u>	<u>\$ (682,954)</u>

See independent auditor's report and notes to the required supplementary information.

City of Diamondhead, Mississippi
Notes to the Required Supplementary Information (Unaudited)
For the Year Ended September 30, 2021

Note 1: Budgetary Information

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

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

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

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

Note 2: Basis of Presentation

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

Note 3: Budget/GAAP Reconciliation

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

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

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

	<i>General Fund</i>
Budget (cash basis)	\$ (1,314,856)
Increase (decrease)	
Net adjustments for revenue accruals	76,973
Net adjustments for expenditure accruals	(1,734)
Net adjustments for other financing sources and accruals	(766,660)
GAAP Basis	\$ (2,006,277)

OTHER INFORMATION

City of Diamondhead, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Program Number	Federal Expenditures
<i>Department of Agriculture (Emergency Watershed Protection Program)</i>			
<i>Passed-through Natural Resources Conservation Service (NRCS)</i>	10.923	DSR 5289-338	\$ 288,750
<i>U.S. Department of Homeland Security</i>			
<i>Passed-through Mississippi Emergency Management Agency</i>			
Disaster Grants - Public Assistance	97.036	4576-DR-MS	<u>2,385,995</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,674,745</u></u>

City of Diamondhead, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021

Note 1: Significant Accounting Policies

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) is prepared on the accrual basis of accounting.

10% De Minimis Cost Rate

The County has not elected to use the 10% de minimis cost rate allowed under the Uniform Guidance.

City of Diamondhead, Mississippi
Combining Balance Sheet Non-Major Governmental Funds
September 30, 2021

	Special Revenue	Capital Projects				Totals
	Solid Waste	Multi Modal Path	Infrastructure Modification	Rotten Bayou Public Access	East Aloha Improvement	
ASSETS						
Cash	\$ 161,935	\$ 100,000	\$ 65,722	\$ 87,447	\$ 104,463	\$ 519,567
Intergovernmental receivables	-	-	-	15,125	22,840	37,965
Total Assets	<u>\$ 161,935</u>	<u>\$ 100,000</u>	<u>\$ 65,722</u>	<u>\$ 102,572</u>	<u>\$ 127,303</u>	<u>\$ 557,532</u>
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ 65,396	\$ 2,572	\$ 3,013	\$ 70,981
Intergovernmental payables	40,527	-	-	-	-	40,527
Due to other funds	-	80,000	-	100,000	100,000	280,000
Total Liabilities	<u>40,527</u>	<u>80,000</u>	<u>65,396</u>	<u>102,572</u>	<u>103,013</u>	<u>391,508</u>
FUND BALANCES						
Committed:						
Public works	121,408	20,000	326	-	24,290	166,024
Total Fund Balances	<u>121,408</u>	<u>20,000</u>	<u>326</u>	<u>-</u>	<u>24,290</u>	<u>166,024</u>
Total Liabilities and Fund Balances	<u>\$ 161,935</u>	<u>\$ 100,000</u>	<u>\$ 65,722</u>	<u>\$ 102,572</u>	<u>\$ 127,303</u>	<u>\$ 557,532</u>

See independent auditor's report.

City of Diamondhead, Mississippi
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Non-Major Governmental Funds
For the Year Ended September 30, 2021

	<u>Special Revenue</u>		<u>Capital Projects</u>		
	<u>Solid Waste</u>	<u>Fire Department</u>	<u>Multi Modal Path</u>	<u>Commercial Connectivity Study</u>	<u>Infrastructure Modification</u>
REVENUES					
Intergovernmental revenues	\$ -	\$ -	\$ -	\$ -	\$ 194,726
Charges for services	557,469	-	-	-	-
Interest	1,654	233	-	-	744
Total revenues	<u>559,123</u>	<u>233</u>	<u>-</u>	<u>-</u>	<u>195,470</u>
EXPENDITURES					
Current:					
Public safety	-	23,062	-	-	-
Public works	496,519	-	-	-	195,504
Conservation of natural resources	-	-	-	-	-
Total expenditures	<u>496,519</u>	<u>23,062</u>	<u>-</u>	<u>-</u>	<u>195,504</u>
Excess (deficiency) of revenues over (under) expenditures	<u>62,604</u>	<u>(22,829)</u>	<u>-</u>	<u>-</u>	<u>(34)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	(51)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(51)</u>	<u>-</u>
Net change in fund balances	62,604	(22,829)	-	(51)	(34)
Fund balances, October 1, 2020	<u>58,804</u>	<u>22,829</u>	<u>20,000</u>	<u>51</u>	<u>361</u>
Fund balances, September 30, 2021	<u>\$ 121,408</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ 327</u>

See independent auditor's report.

City of Diamondhead, Mississippi
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Non-Major Governmental Funds (continued)
For the Year Ended September 30, 2021

	Capital Projects			
	<i>Rotten Bayou</i>	<i>East Aloha</i>	<i>Montjoy Creek</i>	<i>Totals</i>
	<i>Public Access</i>	<i>Improvement</i>		
REVENUES				
Intergovernmental revenues	\$ 16,875	\$ 22,828	\$ 2,838	\$ 237,267
Charges for services	-	-	-	557,469
Interest	-	-	-	2,631
Total revenues	<u>16,875</u>	<u>22,828</u>	<u>2,838</u>	<u>797,367</u>
EXPENDITURES				
Current:				
Public safety	-	-	-	23,062
Public works	16,875	28,550	-	737,448
Conservation of natural resources	-	-	2,838	2,838
Total expenditures	<u>16,875</u>	<u>28,550</u>	<u>2,838</u>	<u>763,348</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(5,722)</u>	<u>-</u>	<u>34,019</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	11	-	11
Transfers out	-	-	-	(51)
Total other financing sources (uses)	<u>-</u>	<u>11</u>	<u>-</u>	<u>(40)</u>
Net change in fund balances	-	(5,711)	-	33,979
Fund balances, October 1, 2020	<u>-</u>	<u>30,000</u>	<u>-</u>	<u>132,045</u>
Fund balances, September 30, 2021	<u>\$ -</u>	<u>\$ 24,289</u>	<u>\$ -</u>	<u>\$ 166,024</u>

See independent auditor's report.

City of Diamondhead, Mississippi
Schedule of Surety Bonds
For the Year Ended September 30, 2021
 UNAUDITED

<u>Name</u>	<u>Title</u>	<u>Company</u>	<u>Coverage</u>
Nancy Depreo	Mayor	Travelers	100,000
Gerard Maher	Councilman At-Large	Travelers	100,000
Shane Finley	Councilman, Ward 1	Travelers	100,000
Alan Moran	Councilman, Ward 2	Travelers	100,000
Ricky Shepard	Councilman, Ward 3	Travelers	100,000
Charles S. Clark	Councilman, Ward 4	Travelers	100,000
Michael J. Reso	City Manager	Travelers	50,000
Jeannie Klein	City Clerk	Travelers	50,000
Tammy Garber	Deputy City Clerk	Travelers	50,000
Catherine Konkel	Treasurer	Travelers	50,000
Jon McCraw	Accounts Payable Clerk	Travelers	50,000
Ronald Jones	Building Official	Travelers	50,000
Beau King	Deputy Building Official	Travelers	50,000
Tammy Braud	Building Clerk	Travelers	50,000
John Rich	Code Enforcement Officer	Travelers	50,000
Lolita McSwain	Court Clerk	Travelers	50,000
Lauren Prater	Deputy Court Clerk	Travelers	50,000
Ann Marie Comeaux	Receptionist	Travelers	50,000

See independent auditor's report.

SPECIAL REPORTS

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

Honorable Mayor and City Council
City of Diamondhead, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Diamondhead, Mississippi, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated September 19, 2022.

Internal Control over Financial Reporting

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

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

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

We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2021-001 and 2021-002.

Compliance and Other Matters

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

Purpose of Report

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

Necaise & Company PLLC

Necaise & Company, PLLC
Gulfport, Mississippi
September 19, 2022

**Independent Auditor's Report on Compliance for Each Major Program and on
Internal Control over Compliance Required by Uniform Guidance**

Honorable Mayor and City Council
City of Diamondhead, Mississippi

Report on Compliance for Each Major Federal Program

We have audited the compliance of the City of Diamondhead, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended September 30, 2021. The City of Diamondhead's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Diamondhead, Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Diamondhead, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Diamondhead's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Diamondhead, Mississippi, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended September 30, 2021.

Report on Internal Control Over Compliance

Management of the City of Diamondhead, Mississippi is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Diamondhead, Mississippi's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Necaise & Company PLLC

Necaise & Company, PLLC
Gulfport, Mississippi
September 19, 2022

Limited Internal Control and Compliance Review Management Report

Honorable Mayor and City Council
City of Diamondhead, Mississippi

In planning and performing our audit of the financial statements of the City of Diamondhead, Mississippi for the year ended September 30, 2021, we considered the City of Diamondhead, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to the City of Diamondhead, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated September 19, 2022, on the financial statements of the City of Diamondhead, Mississippi.

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

The results of procedures performed to test compliance with certain state laws and regulations disclosed the following immaterial instance of non-compliance as follows:

Administration

1. Credit Card and Procurement Card Purchases

Repeat Finding: No

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

Condition: The City credit card was used to purchase non-travel related meals and the City procurement card was used for travel.

Cause: The City's credit card should be used for travel purposes only and the City's procurement card should be used for non-travel related disbursements.

Effect: Statutory noncompliance.

Recommendation: The City should use the credit and procurement cards for their desired purposes.

Views of Responsible Officials: One (1) occasion the city credit card was used to purchase meals for police officers working 24-hour shifts during the locally declared state of emergency (Hurricane Ida). In the event emergency food purchases become necessary, the City will use the procurement card and travel card will be used for travel and related expenses only.

Public Works, Administration and Code Enforcement

2. Unsigned Leave Slips and Timesheet

Repeat Finding: No

Criteria: Leave slips and timesheets should be signed by supervisors.

Condition: We noted several instances of unsigned leave slips and one instance of an unsigned timesheet by the public works department.

Cause: The City's policies regarding leave slips isn't sufficient.

Effect: Internal controls over reporting time are not because the City's personnel policies are not clear on the topic.

Recommendation: We recommend the City strengthen its paid-time-off policy and maintain adequate records that would meet Department of Labor standards and create a clear paper trail.

Views of Responsible Officials: The administration is in process of updating the employee handbook and will include clearly defined procedures for written requests for leave and further implement processes that ensure all leave slips and timesheets are signed by the appropriate supervisor, director, and/or city manager.

Public Works

3. Internal Controls Over Receiving

Repeat Finding: No

Criteria: Internal controls over receiving were not properly evidenced.

Condition: We noted many instances where supplies or other items had been purchased but there is no evidence of who received the item.

Cause: Controls should be structured to safeguard assets. Each control should be evidenced by signature from the party performing the task.

Effect: Employees could misappropriate assets with no evidence of who received the item(s).

Recommendation: We recommend the City implement controls to safeguard assets and ensure each control is evidenced by signature from the party performing the task. Without proper documentation there is no evidence of sufficient controls.

Views of Responsible Officials: The administration will improve receiving procedures, inventory control and inventory usage accountability that will safeguard assets.

Administration

4. Loaned City Property

- Repeat Finding: No
- Criteria: Per State Statute the City should only lend property to events if the Council finds “in fact” that the use of such property is for the lawful benefit of the City, its citizenry, or economic development purposes.
- Condition: We did not note any instances where the Council found “in fact” by spreading upon its minutes, the authorization to ‘lending’ City property.
- Cause: The City loaned property for events without property authorization from the Council.
- Effect: Legal noncompliance.
- Recommendation: We recommend the Council spread in the minutes the findings “in fact” that authorizes of loaning of City property by following State Statute on the criteria.

Views of Responsible Officials: The administration will seek council approval for any future use of city-owned property for “finding of fact” that the use of such property is for the lawful benefit of the City, its citizenry, or economic development.

Administration

5. Executive Session

Our research and inquiries with management and staff led to allegations of misconduct that, if true, would rise to potential violations of law. Due to the sensitive nature of these matters, and an ongoing investigation by the Council, the details of these allegations will be omitted from this report and shared with the Council in executive session. The financial impact of these incidents, if found to be true, is estimated to be immaterial to the financial statements in the aggregate but are required to be reported per Government Auditing Standards.

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

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

Necaise & Company PLLC

Necaise & Company PLLC
Gulfport, Mississippi
September 19, 2022

City of Diamondhead, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2021

Section 1: Summary of Auditor’s Results

Financial Statements:

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

Federal Awards:

- | | |
|---|--|
| 1. Type of auditors’ report issued on compliance for major federal programs? | Unmodified |
| 2. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 3. Any audit finding(s) disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 4. Federal programs identified as major programs: | |
| <u>CFDA Number</u>
97.036 | <u>Program Name</u>
Disaster Grants – Public Assistance |
| 5. The dollar threshold used to distinguish between type A and type B programs: | 750,000 |
| 6. Auditee qualified as low-risk? | No |
| 7. Prior fiscal year audit findings(s) which require the auditee to prepare a summary schedule of prior audit findings in accordance with 2 CFR 200.511(b)? | No |

City of Diamondhead, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2021

Section 2: Financial Statement Findings

Administration
Significant Deficiency

2021-001 The supply inventory should be accurate.

Repeat Finding: No

Criteria: Supply inventory should be properly accounted for to safeguard City property and accurately report values.

Condition: We performed a physical inventory of supplies and noted items missing and not accounted for.

Cause: Internal controls are not sufficient to ensure inventory is recorded correctly.

Effect: Supply inventory was misstated.

Recommendation: The City should revise its controls and follow them to protect its assets.

Views of Responsible Officials: See auditee's corrective action plan.

Municipal Court, Administration
Significant Deficiency

2021-002 Fines Receivable

Repeat Finding: No

Criteria: Fines receivable should accurately report outstanding fines.

Condition: We tested fines receivable and determined that 2019 and prior years had an overstated fines receivable. Fines receivable for 2021 is likely misstated also.

Cause: Fines receivable for 2019 and prior years was misstated due to the system not being updated after the Judge rendered his verdict or the fine was paid. Many old outstanding fines were included in the financials statements prior to 2021, and likely more remain.

Effect: Fines receivable is misstated. We do not believe the misstatement to be material in amount.

Recommendation: We recommend the City perform a review of open balances and correct any remaining discrepancies between the software and the actual case files.

Views of Responsible Officials: See auditee's corrective action plan.

Section 3: Findings Required to be Reported by the Uniform Guidance

The results of our tests did not disclose any findings and questioned costs related to federal awards.



CORRECTIVE ACTION PLAN

September 29, 2022

Office of the State Auditor
501 N. West Street, Suite 801
Jackson, MS 39201

To Whom It May Concern:

The City of Diamondhead respectfully submits the following corrective action plan for the year ended September 30, 2021.

The findings from the Schedule of Findings and Questioned Costs are discussed below.

2021-001 – The supply inventory should be accurate

CORRECTIVE ACTION PLANNED: The city will strengthen internal controls that will safeguard inventory and result in accurately reported inventory values.

Anticipated Completion Date: December 31, 2022

Name of Contact Person Responsible for Corrective Action – Jeannie Klein , City Clerk

2021-002 – Fines Receivable

CORRECTIVE ACTION PLANNED: A review of all court cases since the City’s inception and software system discrepancies corrections began in FY2022 and is still in process.

Anticipated Completion Date: December 31, 2022

Name of Contact Person Responsible for Corrective Actin – Jeannie Klein, City Clerk

Sincerely,

Jon McCraw
City Manager



5000 Diamondhead Circle • Diamondhead, MS 39525-3260
Phone: 228.222.4626 Fax: 228.222.4390
www.diamondhead.ms.gov

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

September 29, 2022

Office of the State Auditor
501 N. West Street, Suite 801
Jackson, MS 39201

To Whom It May Concern:

The City of Diamondhead respectfully submits the following Summary Schedule of Prior Audit Findings for the year ended September 30, 2020:

The finding from the prior year's Schedule of Findings and Questioned Costs is discussed below.

Section 2: Financial Statement Findings

2020-001 – The Inventory Control System should be Accurate and Up-to-Date

NOT CORRECTED – See Finding 2021-001 further procedures will be implemented to strengthen internal controls that will safeguard inventory and result in accurately reported inventory values and usage.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Jon McCraw', is written over a light blue horizontal line.

Jon McCraw
City Manager