

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY
(A Component Unit of Hancock County, Mississippi)

AUDITED FINANCIAL STATEMENTS

For the Year Ended September 30, 2021



Wolfe • McDuff & Oppie
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Diamondhead Fire Protection District of Hancock County

We have audited the accompanying financial statements of the business-type activities of the Diamondhead Fire Protection District of Hancock County, a component unit of Hancock County, Mississippi, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Diamondhead Fire Protection District of Hancock County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Diamondhead Fire Protection District of Hancock County, a component unit of Hancock County, 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.

Membership in:

American Institute of Certified Public Accountants • Mississippi Society of Certified Public Accountants
AICPA Governmental Audit Quality Center • AICPA Center for Audit Quality • AICPA Employee Benefit Plan Audit Quality Center



Independent Auditor's Report

Page 2

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the net pension schedules on pages 29 - 30 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2022, on our consideration of the Diamondhead Fire Protection District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Diamondhead Fire Protection District's internal control over financial reporting and compliance

Walfe, McDuff + Oppi

Pascagoula, Mississippi

January 18, 2022

BASIC FINANCIAL STATEMENTS

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DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

STATEMENT OF NET POSITION - PROPRIETARY FUND

September 30, 2021

ASSETS

Current assets:		
Cash	\$	1,206,886
Fire fees receivable, net		42,738
Tax millage receivable		13,188
Prepaid assets		<u>8,400</u>
Total current assets		<u>1,271,212</u>
Noncurrent Assets:		
Capital assets:		
Nondepreciable		174,053
Depreciable, net of accumulated depreciation		<u>1,342,232</u>
Total noncurrent assets		<u>1,516,285</u>
Total assets		<u>2,787,497</u>

DEFERRED OUTFLOW OF RESOURCES

Deferred outflows of resources related to pensions		<u>329,994</u>
Total deferred outflows of resources		<u>329,994</u>

LIABILITIES

Current liabilities:		
Accounts payable		30,316
Accrued payroll liabilities		50,725
Accrued interest payable		2,483
Unearned fire fees		<u>31,364</u>
Total current liabilities		<u>114,888</u>
Noncurrent liabilities:		
Due within one year:		
Compensated absences		27,464
Fire engine lease		85,653
Due in more than one year:		
Compensated absences		27,464
Fire engine lease		270,399
Net pension liability		<u>1,906,676</u>
Total noncurrent liabilities		<u>2,317,656</u>
Total liabilities		<u>2,432,544</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions		<u>638,007</u>
Total deferred inflows of resources		<u>638,007</u>

NET POSITION

Net invested in capital assets		1,245,886
Unrestricted net position		<u>(1,198,946)</u>
Total net position (deficit)	\$	<u>46,940</u>

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

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY
(A Component Unit of Hancock County, Mississippi)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY
FUND
For the Year Ended September 30, 2021

OPERATING REVENUES	
Charges for Services	\$ <u>1,428,614</u>
Total Operating Revenues	<u>1,428,614</u>
OPERATING EXPENSES	
Wages	898,470
Fringe Benefits	139,037
Pension Expense	90,575
Payroll Taxes	68,247
Workman's Compensation	36,667
Administrative Expenses	57,320
Supplies	8,062
Training and Uniform Expenses	6,438
Gas and Oil Expenses	7,915
Depreciation Expense	59,023
Repairs and Maintenance	<u>48,374</u>
Total Operating Expenses	<u>1,420,128</u>
Income (Loss) from Operations	<u>8,486</u>
NON-OPERATING REVENUES (EXPENSES)	
Taxes	290,145
Gaming revenue	27,348
Interest Income	698
Grant Revenues	<u>18,275</u>
Total Non-operating Income (Expenses)	<u>336,466</u>
Change in Net Position	344,952
Total Net Position - beginning of year	<u>(298,012)</u>
Total Net Position - end of year	<u>\$ <u>46,940</u></u>

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

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

For the Year Ended September 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from charges for services	\$ 1,428,774
Cash paid for operating expenses	(101,685)
Cash paid for salaries	<u>(1,287,205)</u>
Net cash provided (used) operating activities	<u>39,884</u>

CASH FLOWS FROM NON-CAPITAL FINANCING:

Cash received from taxes	317,493
Cash received from grants	<u>18,275</u>
Net cash provided (used) non-capital financing activities	<u>335,768</u>

CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of capital assets	(900,386)
Payments on capital leases	<u>(81,023)</u>
Net cash provided (used) capital and related financing activities	<u>(981,409)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	<u>698</u>
Net cash provided (used) investing activities	<u>698</u>

Net increase (decrease) in cash (605,059)

Cash and cash equivalents, beginning of year	<u>1,811,945</u>
Cash and cash equivalents, end of year	<u>\$ 1,206,886</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating income (loss)	\$ 8,486
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization expense	59,023
(Increase) decrease in current assets:	
Accounts receivable	2,434
Other assets	(2,274)
Increase (decrease) in current liabilities:	
Accounts payable	27,982
Accrued payroll liabilities	(60,005)
Unearned fire fees	(1,448)
Compensated absences	<u>5,686</u>
Net cash provided by (used in) operating activities	<u>\$ 39,884</u>

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

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NOTES TO FINANCIAL STATEMENTS

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DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

Diamondhead Fire Protection District (the District) is a component unit of Hancock County, Mississippi and was formed as a political body under the laws of Mississippi 19-5-175 of the Mississippi Code of 1972. These laws allow the District to charge a fee for its services. The District serves the citizens of Diamondhead with fire protection, search and rescue, and CPR training and awareness.

The District does not have any component units as defined by GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*.

B. Basis of Presentation

The accounts of the District are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. These funds are used to report on the District's financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. Resources are accounted for in individual funds based upon the purposes for which they are to be spent and the restrictions, if any, on the spending activities.

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

Fund Financial Statements

Proprietary Funds are used to account for the District's activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position, and changes in cash flows. The Enterprise Fund is the District's Proprietary Fund Type.

Basis of Accounting

The Proprietary Fund Type (Enterprise Fund) is accounted for on an economic resources measurement focus using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

The major sources of revenue are fire fees charged to residents and businesses and tax millage received from Hancock County. Other revenues the District receives are from charging late fees, miscellaneous grants, and interest income.

Budgets and Budgetary Accounting

The District's budget is adopted annually and serves as a management tool that assists its users in analyzing financial activity. For its fiscal year ending September 30, 2021, there were no amendments to the original budget.

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash Equivalents

For purposes of reporting cash flow, cash and cash equivalents include money market accounts and any other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

The District provides an allowance for doubtful accounts which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Delinquent receivables are written off based on evaluation of the customer.

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 could differ from those estimates.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. As of September 30, 2021, the amount of prepaid items is \$8,400.

Capital Assets

Fixed assets purchased or acquired with an original cost of \$500 or more are reported at historical cost. Depreciation and accumulated depreciation are recorded because the District operates as a proprietary fund, and are provided using accelerated and straight-line methods over the following estimated useful lives:

	<u>Years</u>
Automotive	5
Furniture, fixtures, & equipment	5-7
Fire Trucks	20
Buildings	39

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. As of September 30, 2021, the District reported deferred outflows pertaining to pensions of \$329,994.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2021, the District reported deferred inflows pertaining to pensions of \$638,007.

Compensated Absences

Vacation benefits and sick leave are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means.

All compensated absences liabilities include salary-related payments, where applicable.

The District's policy allows employees to accumulate unused sick leave on an unlimited basis. Employees may also accumulate 480 hours of compensatory times. Upon termination, any accumulated sick and compensatory time will be paid to the employee up to 240 hours. Any earned vacation hours in excess of 240 hours is certified and sent to the Public Employees Retirement System (PERS).

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the financial statements.

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances on any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by the creditors, grantors, laws or regulations of other governments. All other net position not meeting the definition of "restricted" or "invested in capital assets, net of related debt." Unrestricted net position represents the net position available for future operations.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures 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 District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

The District does not have a minimum fund balance policy.

NOTE 2. CASH ON DEPOSIT

Cash on deposit consists of demand deposit checking and money market accounts with no withdrawal restrictions. The funds are fully insured or collateralized with securities held in the name of the State Treasurer under a program established by the Mississippi State legislature and is governed by Section 27-1-5-5 Miss. Code Ann. (1972). Under this program, 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 FDIC.

Deposits at September 30, 2021, are as follows:

Cash on Hand	\$	703
Bank Deposits		<u>1,206,183</u>
Total	\$	<u><u>1,206,886</u></u>

At year-end, the carrying amount of the District's deposits was \$1,206,183, and the respective bank balances totaled \$1,217,402. The bank balance is categorized as follows:

Amount collateralized with securities held in the State of Mississippi collateral pool on behalf of the District	\$	967,402
Amounts held at various financial institutions covered under Federal Depository Insurance		<u>250,000</u>
	\$	<u><u>1,217,402</u></u>

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 3. FIRE FEES RECEIVABLE

Fire Fees Receivable at September 30, 2021 consisted of the following aged balances:

Current	\$ 24,624
Over 30 days	16,613
Over 60 days	1,501
Over 90 days	<u>397,772</u>
	440,510
 Less allowance of uncollectible accounts	 <u>(397,772)</u>
Net fire fees receivable	<u>\$ 42,738</u>

NOTE 4. TAX MILLAGE RECEIVABLE

Tax millage receivable consists of amounts due from millage and gaming revenues appropriated to the District from Hancock County. As of September 30, 2021, the District is due \$13,188 from Hancock County.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2021, was as follows:

	Beginning Balance	Increases	Decrease/ Adjustments	Ending Balance
Capital assets not being depreciated:				
Land	\$ 174,053	-	-	174,053
Total capital assets not being depreciated	<u>174,053</u>	<u>-</u>	<u>-</u>	<u>174,053</u>
 Capital assets being depreciated:				
Buildings	601,569	-	-	601,569
Vehicles	961,891	879,117	(10,000)	1,831,008
Furniture and equipment	268,000	18,650	(11,831)	274,819
Computers	<u>6,022</u>	<u>2,249</u>	<u>(1,525)</u>	<u>6,746</u>
Total capital assets being depreciated	<u>1,837,482</u>	<u>900,016</u>	<u>(23,356)</u>	<u>2,714,142</u>
Less accumulated depreciation	<u>1,336,613</u>	<u>59,023</u>	<u>(23,726)</u>	<u>1,371,910</u>
Total capital assets being depreciated, net	<u>500,869</u>	<u>840,993</u>	<u>370</u>	<u>1,342,232</u>
Total capital asset, net	<u>\$ 674,922</u>	<u>840,993</u>	<u>370</u>	<u>1,516,285</u>

Depreciation expense for the current year is \$59,023.

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 6. LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2021, is shown as follows:

<u>Long-Term Obligations</u>	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Proprietary Activities:					
Compensated Absences	\$ 49,242	5,686	-	54,928	27,464
Fire engine capital lease	439,558	-	(83,506)	356,052	85,653
Net Pension Liability	<u>2,342,419</u>	<u>-</u>	<u>(435,743)</u>	<u>1,906,676</u>	<u>-</u>
Total government activities	<u>\$ 2,831,219</u>	<u>5,686</u>	<u>(519,249)</u>	<u>2,317,656</u>	<u>113,117</u>

Compensated absences, fire engine lease, and net pension liability will be paid from the proprietary fund.

A. Capital Leases

At September 30, 2021, the District's outstanding capital leases are described as follows:

<u>Capital Leases</u>	<u>Date of Issue</u>	<u>Final Maturity Date</u>	<u>Rates</u>	<u>Original Issue</u>	<u>Annual Installment</u>	<u>Balance September 30, 2021</u>
Capital lease payable to bank, secured by Fire engine	6/30/2020	6/30/2025	2.571%	\$ 439,558	94,807	<u>356,052</u>
Total						<u>\$ 356,052</u>

The future minimum lease obligation and the net present value of these minimum lease payments as of September 30, 2021, were as follows:

<u>Year Ending September 30,</u>	<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 85,653	9,154
2023	87,855	6,952
2024	90,114	4,693
2025	<u>92,430</u>	<u>2,376</u>
Total	<u>\$ 356,052</u>	<u>23,175</u>

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 7. UNEARNED FIRE FEES

Unearned Fire Fees is an estimate that represents prepaid fire fees paid by homeowners at September 30, 2021. As of September 30, 2021, unearned fire fees are \$31,364.

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Description. The District contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report is available at www.pers.ms.gov.

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter.

Contributions. PERS members are required to contribute 9.00% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The employer's rate as of September 30, 2021 was 17.40% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The District's contribution to PERS for the year ended September 30, 2021, 2020, and 2019 were \$150,420, \$144,856, and \$135,102 respectively, which equal to the required contributions for each year.

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows or Resources Related to Pensions

At September 30, 2021, the District reported a liability of \$1,906,676 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2021, the District's proportion was 0.0129 percent, which was an increase of 0.0008 percent from its proportion measured as of June 30, 2020.

For the year ended September 30, 2021, the District recognized pension expense of \$90,575. At September 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences	\$ 30,488	-
Changes of assumptions	146,718	-
Net difference between projected and actual earnings on pension plan investments	-	574,210
Changes in proportion and differences between the District's contributions and proportionate share of contributions	112,021	63,797
The District's contributions subsequent to the measurement date	40,767	-
Total	\$ 329,994	638,007

\$40,767 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ending September 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30,:	
2022	\$ (65,825)
2023	(55,259)
2024	(56,585)
2025	(171,111)
2026	-
Thereafter	-
Total	\$ (348,780)

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Actuarial assumptions

The collective total pension liability was determined by an actuarial valuation as of June 30, 2020 and a measurement date determined as of June 30, 2021 by the new actuarial assumptions adopted by the Board subsequent to the June 30, 2020 valuation based on the experience investigation for the four-year period ending June 30, 2020, and by the investment experience for the fiscal year ending June 30, 2021. The following actuarial assumptions are applied to all periods included in the measurement:

Inflation	2.40%
Salary increases	2.65-17.90%, including inflation
Investment rate of return	7.55%, net of pension plan investments expense, including inflation

Mortality rates were based on the PubS.H-2010(B) Retiree Table with the following adjustments: For males, 95% of male rates up to age 60, 110% for ages 61 to 75 and 101% for ages above 77. For females, 84% of female rates up to age 72 and 100% for ages above 76. Mortality rates for disability retirees were based on the PubG.H-2010 Disabled Table adjusted 134% for males and 121% for females. Mortality rates for Contingent Annuitants were based on the PubS.H-2010(B) Contingent Annuitant Table, adjusted 97% for males and 110% for females. Mortality rates will be projected generationally using the MP-2020 projection scale to account for future improvements in life expectancy.

The actuarial assumptions used for the purposes of determining the TPL were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2020. The experience report is dated April 20, 2021.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2021, are summarized in the following table:

Asset class	Target Allocation	Long-term expected real rate of return
Domestic equity	27.00 %	4.60 %
International equity	22.00	4.50
Global equity	12.00	4.80
Debt securities	20.00	(0.25)
Real estate	10.00	3.75
Private equity	8.00	6.00
Cash equivalents	1.00	(1.00)
Total	100.00 %	

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 8. PUBLIC EMPLOYEES' RETIREMENT SYSTEM (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.55%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (17.40%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

The following table presents the net pension liability of the cost-sharing plan, calculated using the discount rate of 7.55%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.55%) or 1-percentage-point higher (8.55%) than the current rate:

	<u>1% Decrease (6.55%)</u>	<u>Current Discount Rate (7.55%)</u>	<u>1% Increase (8.55%)</u>
District's proportionate share of the net pension liability	\$ 2,700,301	1,906,676	1,252,667

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

NOTE 9. DEFERRED COMPENSATION PLAN

Employees of the District are eligible to participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code (IRC) Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments).

Under the deferred compensation plan, which is available to all employees of the District, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portions until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. The deferred compensation plan is administered by the Board of Trustees of the Public Employees Retirement System of Mississippi. The plan's assets are held in trust by the Public Employees Retirement System of Mississippi for the exclusive benefit of the participants and beneficiaries of the plan and are not subject to the general creditors of the District. As a result, the plan's assets are not reflected in an agency fund of the District.

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

NOTES TO FINANCIAL STATEMENTS

September 30, 2021

NOTE 10. CONCENTRATIONS

The District received approximately 81% of its revenue from charges for services.

NOTE 11. PENDING OR THREATENED LITIGATION, CLAIMS, AND ASSESSMENTS

The District 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 District carries commercial insurance that normally covers these risks.

NOTE 12. UNCERTAINTIES

A novel strain of Coronavirus (COVID-19) spread across the world and was declared a pandemic by the World Health Organization on March 11, 2020. As a result of the spread of COVID-19, economic uncertainties have arisen. The extent of the impact of COVID-19 on operational and financial performance will depend on the duration and spread of the outbreak.

NOTE 13. EFFECT OF DEFERRED AMOUNTS ON NET POSITION

The unrestricted net position amount of \$(1,198,946) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. A portion of the deferred outflows of resources related to pension in the amount of \$40,767 resulting from the district's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2022. The \$289,227 balance of deferred outflow of resources, September 30, 2021 will be recognized as an expense and will decrease the unrestricted net position over the next 3 years.

The unrestricted net position amount of \$(1,198,946) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$638,007 balance of deferred inflow of resources, at September 30, 2021 will be recognized as a revenue and will increase the unrestricted net position over the next 4 years.

NOTE 14. SUBSEQUENT EVENTS

The District has evaluated subsequent events through January 18, 2022 which is the date the financial statements were available to be issued. The District determined there were no subsequent events having occurred since September 30, 2021 that require recognition of disclosure in its financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

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DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY
(A Component Unit of Hancock County, Mississippi)
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY*
Public Employees Retirement System of Mississippi
Last 10 Fiscal Years (Only 7 Years Shown)**
(Unaudited)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0129 %	0.0121 %	0.0130 %	0.0129 %	0.0131 %	0.0121 %	0.0131 %
District's proportionate share (amount) of the net pension liability	\$ 1,906,676	2,342,419	2,286,957	2,145,653	2,177,665	2,143,499	2,009,544
District's covered payroll	\$ 860,256	810,160	844,425	821,694	838,109	812,394	814,720
District's proportionate share (amount) of the collective net pension liability as a percentage of its covered payroll	221.64 %	289.13 %	270.83 %	261.13 %	259.83 %	263.85 %	246.65 %
Plan fiduciary net position as a percentage of the total pension liability	70.44 %	58.97 %	61.59 %	62.54 %	61.49 %	57.47 %	61.70 %

*The amounts presented for each fiscal year were determined as of the measurement date of June 30 of the fiscal year presented.

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

The accompanying notes to required supplementary information are an integral part of this schedule.

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)

SCHEDULE OF THE DISTRICT CONTRIBUTIONS

Public Employees Retirement System of Mississippi

Last 10 Fiscal Years (Only 7 Years Shown)**

(Unaudited)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 150,420	144,856	135,102	128,362	132,416	121,737	129,065
Contributions in relation to the contractually required contribution	<u>(150,420)</u>	<u>(144,856)</u>	<u>(135,102)</u>	<u>(128,362)</u>	<u>(132,416)</u>	<u>(121,737)</u>	<u>(129,065)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered payroll	\$ 864,485	832,503	839,746	814,996	840,738	772,933	819,460
Contributions as a percentage of covered payroll	17.40 %	17.40 %	16.09 %	15.75 %	15.75 %	15.75 %	15.75 %

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

The accompanying notes to required supplementary information are an integral part of this schedule.

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2021
(Unaudited)

NOTE 1. PENSION SCHEDULES

A. Changes of Assumptions

2017: The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.

The wage inflation assumption was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

2019: The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments:

- For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119.
- For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119.
- Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The expectation of disabled mortality was changed to PubT.H-2010 Disabled Retiree Table for disabled retirees with the following adjustments:

- For males, 137% of male rates at all ages.
- For females, 115% of female rates at all ages.
- Projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The price inflation assumption was reduced from 3.00% to 2.75%.

The wage inflation assumption was reduced from 3.25% to 3.00%.

2021: The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments:

- For males, 95% of male rates up to age 60, 110% for ages 61 to 75, and 101% for ages above 77.
- For females, 84% of female rates up to age 72, 100% for ages above 76.
- Projection scale MP-2020 will be used to project future improvements in life expectancy generationally.

The expectation of disabled mortality was changed to PubG.H-2010 Disabled Table for disabled retirees with the following adjustments:

- For males, 134% of male rates at all ages.
- For females, 121% of female rates at all ages.
- Projection scale MP-2020 will be used to project future improvements in life expectancy generationally.

DIAMONDHEAD FIRE PROTECTION DISTRICT OF HANCOCK COUNTY

(A Component Unit of Hancock County, Mississippi)
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2021
(Unaudited)

NOTE 1. PENSION SCHEDULES (Continued)

The expectation of contingent annuitant mortality was based on the PubS.H-2010(B) Contingent Annuitant Table with the following adjustments:

- For males, 97% of male rates at all ages.
- For females, 110% of female rates at all ages.
- Projection scale MP-2020 will be used to project future improvements in life expectancy generationally.

The price inflation assumption was reduced from 2.75% to 2.40%.

The wage inflation assumption was reduced from 3.00% to 2.65%.

The investment rate of return assumption was changed from 7.75% to 7.55%.

The assumed load for administrative expenses was increased from 0.25% to 0.28% of payroll.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to reflect actual experience more closely.

The percentage of active member disabilities assumed to be in the line of duty was increased from 9% to 12%.

The percentage of active member deaths assumed to be in in the line of duty was decrease from 6% to 4%

B. Changes in Benefit Provisions

2017-2021: None

C. Method and assumptions used in calculations of actuarially determined contributions

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2019 valuation for the June 30, 2021 fiscal year end). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	28.8 years
Asset valuation method	5-year smoothed market
Price Inflation	2.75 percent
Salary increase	3.00 percent to 18.25 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

REPORT ON COMPLIANCE AND INTERNAL CONTROL

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

To the Board of Commissioners
Diamondhead Fire Protection District of Hancock County

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 business-type activities of Diamondhead Fire Protection District, a component unit of Hancock County, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise Diamondhead Fire Protection District's basic financial statements and have issued our report thereon dated January 18, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Diamondhead Fire Protection District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Diamondhead Fire Protection District'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 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Diamondhead Fire Protection District'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*.

Membership in:

American Institute of Certified Public Accountants • Mississippi Society of Certified Public Accountants
AICPA Governmental Audit Quality Center • AICPA Center for Audit Quality • AICPA Employee Benefit Plan Audit Quality Center



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

Page 2

Purpose of this Report

This purpose of this report 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.

Walfe, McDuff + Oppi

Pascagoula, Mississippi

January 18, 2022