

**MISSISSIPPI STATE PORT AUTHORITY
AT GULFPORT**

FINANCIAL STATEMENTS

JUNE 30, 2003, 2002, AND 2001



MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
LIST OF OFFICIALS
JUNE 30, 2003

Board of Commissioners

Term

Virginia Shanteau Newton	President	12/07/03
John K. Rester	Vice President	12/07/04
Dr. Roy L. Irons	Secretary	12/07/05
Dalton D. McGuire	Treasurer	12/08/06
Lenwood S. Sawyer, Jr.	Commissioner	12/09/07

Executive Director and Chief Executive Officer

Donald R. Allee

Deputy Director of Finance and Administration

Mary J. Bourdin, CPA

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
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INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

August 15, 2003
(except for Note 16, as to which the
date is September 9, 2003)

To the Board of Commissioners
Mississippi State Port Authority
at Gulfport
Gulfport, Mississippi

We have audited the accompanying comparative statements of net assets of the Mississippi State Port Authority at Gulfport, a component unit of the State of Mississippi, as of and for the years ended June 30, 2003, 2002, and 2001, and the related comparative statements of revenues, expenses, and changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of the Mississippi State Port Authority at Gulfport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mississippi State Port Authority at Gulfport, as of June 30, 2003, 2002, and 2001, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 9, is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Commissioners
Mississippi State Port Authority
at Gulfport
August 15, 2003

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2003, on our consideration of the Mississippi State Port Authority at Gulfport's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.


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

MANAGEMENT'S DISCUSSION AND ANALYSIS



MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT

BOARD OF COMMISSIONERS
VIRGINIA SHANTEAU NEWTON
President
JOHN K. RESTER
Vice President
DR. ROY L. IRONS
Secretary

DALTON D. MCGUIRE
Treasurer
LENWOOD S. SAWYER, JR.
Commissioner
DONALD R. ALLEE
Executive Director & CEO
dra@gulfport.state.ms.us
www.shipmspa.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Mississippi State Port Authority at Gulfport (the Authority), we offer the readers of the financial statements this narrative overview and analysis of the financial activities of the Authority for fiscal year ending June 30, 2003. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Financial Highlights

- The Authority's net assets increased \$9.9 million (or 8.4 percent) as a result of this year's operations.
- As of June 30, 2003, the Authority's operating revenues totaled \$19.7 million, which exceeded the operating expenses by \$8.3 million. This compares to last year when operating revenues exceeded expenses by \$8.9 million.
- The Authority's operating revenues increased to \$19.7 million (or 5.7 percent). \$.7 million of the increased revenues are attributable to increased business for our existing customer at the Public Container Terminal and the addition of a new customer at the terminal mid-year. Accordingly, the Port experienced a 50.7 percent increase in operating revenues at the container terminal. The Port also received \$.9 million in revenue from a cruise line customer utilizing the Port on a temporary basis.
- Operating expenses increased by 14.6 percent to \$11.2 million. Of the \$1.4 million of increased operating expenses, \$.5 million is directly attributed to engineering feasibility studies and \$.3 million relates to increased operating expenses for the public container terminal.
- Total capital assets increased \$12 million (or 12.1 percent) as a result of the Authority's capital expansion program. Series 16 bond funds expended on capital projects were in excess of \$2.6 million with \$11.6 million in proceeds unexpended.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's financial statements. The annual report consists solely of the financial statements of the Mississippi State Port Authority at Gulfport. These financial statements include the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Current year revenues are recognized when earned and current year expenses are recognized when they are incurred

without regard to when the cash is received or disbursed.

Statement of Net Assets

The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating by reflecting the Authority's overall financial health. Restricted Assets include customer deposits and bond funds for capital expansion. The Authority internally restricts additional funds for debt service and/or emergency contingencies.

A summary of the Authority's Statement of Net Assets as of June 30, 2003 with comparative amounts for June 30, 2002 is as follows:

COMPARATIVE STATEMENTS OF NET ASSETS			
	ASSETS		
		<u>2003</u>	<u>2002</u>
CURRENT ASSETS			
Cash & investments		\$35,212,487	\$39,337,796
Accounts receivable		1,980,255	1,738,765
Prepaid expenses		142,331	111,874
	Total current assets	37,335,073	41,188,435
RESTRICTED ASSETS			
Cash & investments		18,468,544	21,769,393
Accounts receivable		10,970	38,567
	Total restricted assets	18,479,514	21,807,960
NON-CURRENT ASSETS			
Capital assets		113,192,930	100,956,938
Unamortized bond issue costs		25,506	30,899
	Total non-current assets	113,218,436	100,987,837
TOTAL ASSETS		<u><u>\$169,033,023</u></u>	<u><u>\$163,984,232</u></u>

LIABILITIES & FUND EQUITY		
CURRENT LIABILITIES	<u>2003</u>	<u>2002</u>
Accounts payable	\$1,989,987	\$2,134,493
Retainages payable	1,160,305	542,971
Notes & bonds payable	<u>3,665,000</u>	<u>3,542,741</u>
Total current liabilities	<u>6,815,292</u>	<u>6,220,205</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts payable	214,243	938,966
Retainages payable	0	179,227
Customer deposits	<u>132,881</u>	<u>134,181</u>
Total payable/restricted assets	<u>347,124</u>	<u>1,252,374</u>
NON-CURRENT LIABILITIES		
Note/bonds payable, net of current portion	<u>33,780,000</u>	<u>38,331,038</u>
Total liabilities	<u>40,942,416</u>	<u>45,803,617</u>
NET ASSETS		
Invested in capital assets, net of debt	85,852,976	72,125,961
Restricted	18,132,390	20,555,586
Unrestricted	<u>24,105,241</u>	<u>25,499,068</u>
Total net assets	<u>128,090,607</u>	<u>118,180,615</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$169,033,023</u></u>	<u><u>\$163,984,232</u></u>

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets have changed in the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement that will only result in cash flows in future fiscal periods. In the statement of revenues, expenses, and changes in net assets, management divides the Authority's activities into two types as follows:

Charges for services - Most of the Port's maritime services provided are reported here, including wharfage, dockage, usage, harbor fees, line-handling, and demurrage.

Revenue from leases - All revenue received from maritime and non-maritime activities is reported here.

A summary of the Authority's Statement of Revenues, Expenses, and Changes in Net Assets as of June 30, 2003 with comparative amounts for June 30, 2002 is as follows:

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS		
OPERATING REVENUES	<u>2003</u>	<u>2002</u>
Charges for services	\$7,992,268	\$6,812,890
Revenue from leases	<u>11,739,673</u>	<u>11,870,693</u>
Total operating revenues	<u>19,731,941</u>	<u>18,683,583</u>
Operating expenses	<u>11,194,468</u>	<u>9,764,949</u>
INCOME FROM OPERATIONS	<u>8,537,473</u>	<u>8,918,634</u>
NON-OPERATING REVENUE (EXPENSE)		
Revenue from county	995,037	1,022,475
Investment income	1,212,432	2,106,236
Interest & other expenses	(1,387,324)	(1,376,251)
Loss on disposal of assets	<u>(71,736)</u>	<u>(699)</u>
Total non-operating revenue (expense)	<u>748,409</u>	<u>1,751,761</u>
NET INCOME BEFORE CONTRIBUTIONS	<u>9,285,882</u>	<u>10,670,395</u>
Capital contributions	<u>624,110</u>	<u>440,301</u>
CHANGE IN NET ASSETS	9,909,992	11,110,696
TOTAL NET ASSETS - BEGINNING	<u>118,180,615</u>	<u>107,069,919</u>
TOTAL NET ASSETS - ENDING	<u><u>\$128,090,607</u></u>	<u><u>\$118,180,615</u></u>

Statement of Cash Flows

The statement of cash flows details the cash received and expended by the Authority during the fiscal year. The cash flow statement is divided into cash flows from operating activities, non-capital financing activities, capital financing activities, and investing activities.

Overall Analysis of Financial Position

One of the most important questions to be answered about the Authority's finances is, "Is the Authority as a whole better off or worse off as a result of the year's activities?" Both the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets are tools that management uses as indicators of the Authority's overall financial health. Over a period of time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating. Additionally, Management considers other non-financial indicators such as legislative mandates and the economic market conditions to assess the overall well-being of the port.

During Fiscal Year 2003 the Authority experienced a 15.5 percent increase in its maritime revenues. Maritime revenues continue to support the Authority's operating expenses, before depreciation. Non-maritime revenues declined at a rate of 2.5 percent. Non-maritime revenues support the debt service and capital expansion of the Authority. The Port Authority continues to utilize ad valorem tax revenues to retire debt.

The Authority's liabilities decreased by \$4.9 million (or 10.6 percent) during the past fiscal year, while total net assets increased \$9.9 million (or 8.4 percent). \$15.4 million was spent in Fiscal Year 2003 on the Authority's multi-year capital expansion program. Approximately \$12.9 million of self-generated reserve revenues funded the current year's capital expenditures. The main focus of the expansion program is to maintain and/or improve our status as the number 3 container cargo port in the Gulf.

Analysis of the Authority's cash flows shows \$11.3 million in cash provided by this year's operating activities while Fiscal Year 2002 provided \$8.6 million in positive cash flows.

Other Potentially Significant Matters

Capital Asset Administration

Capital Assets at Year-end (Net of Depreciation, in Millions)

	<u>2003</u>	<u>2002</u>
Buildings	\$36.2	\$37.0
Land	7.4	7.4
Land improvements	15.8	15.7
Infrastructure improvements	35.3	19.9
Furniture, fixtures & equipment	1.7	1.8
Construction in progress	<u>16.8</u>	<u>19.2</u>
Totals	<u>\$113.2</u>	<u>\$101.0</u>

This year's major additions included (in millions):

	<u>FY 03 Expenditure</u>	<u>Total Cost</u>
960' New Berth on West Pier (Berth 7)	\$ 3.1	\$16.7
Paving and Drainage on West Terminal	.3	.4
On-terminal Rail Improvements	.3	.3

This year's major construction projects in progress (in millions):

	<u>FY 03 Expenditure</u>	<u>Expended to Date</u>
Land Expansion, West Pier	\$.9	\$ 1.7
Cellular Cofferdam Enhancement	<u>10.5</u>	<u>12.1</u>
Total FY 03 major expenditures	\$11.4	\$13.8

Note 13 to the Financial Statements provides detail for construction commitments at June 30, 2003.

Debt Administration

OUTSTANDING DEBT, AT YEAR-END		
	<u>2003</u>	<u>2002</u>
General Obligation Bonds (backed by the State)		
Series 15	\$ 1,845,000	\$ 3,600,000
Series 16	34,845,000	36,230,000
Series B-1991	755,000	1,085,000
Note Payable (due to the MS Development Authority)	<u>0</u>	<u>958,779</u>
Totals	<u>\$ 37,445,000</u>	<u>\$ 41,873,779</u>

The Authority continues to extinguish its debt. At year end three bond issues remained outstanding, with Series 16 being the most significant. As investment income rates declined throughout the year the Authority opted to retire the outstanding note payable to the MS Development Authority.

Economic Factors and Fiscal Year Ending June 30, 2004's Budget

The Port's management considered many factors when setting the Fiscal Year 2004 budget. One of these factors was that the Port's function is to provide marine terminal services to our customers that we might enhance the economic growth of the State of Mississippi. In reviewing the existing tenant agreements and considering current economic conditions, revenue projections for the upcoming year remain flat. It is

anticipated that poultry exports to Russia will continue to experience frequent disruptions. Our public container terminal volumes increased 50.7 percent or \$.7 million during the past year. We expect to maintain these volumes, but not to see the large increases that we did in Fiscal Year 2003. Other maritime tenants continue to face tough competition and therefore, we do not expect to see increased tonnage or revenues from them.

In an effort to sustain the existing level of service provided to our customers and to maintain Port facilities, expenditures are budgeted to increase \$.5 million. In progressing with the Port's capital improvement plan \$31.5 million has been budgeted for the next year. An update to the existing Strategic Master Plan is currently being completed. All public hearings have been complete and final acceptance of the plan will be during the first quarter of Fiscal Year 2004. The report will prioritize and direct our capital improvements for the next decade.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives. If you have any questions regarding this report or need additional financial information, contact the Authority's Office of Finance & Administration, P. O. Box 40, Gulfport, MS 39502.



Donald R. Allee
Executive Director & CEO



Mary J. Bourdin, CPA
Deputy Port Director Finance & Admin.

FINANCIAL STATEMENTS

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2003, 2002 AND 2001

ASSETS			
	<u>2003</u>	<u>2002</u>	<u>2001</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 18,147,707	\$ 7,046,959	\$ 9,024,025
Investments	17,064,780	32,290,837	26,154,372
Accrued interest receivable	114,929	225,230	284,259
Accounts receivable, net of allowance for doubtful accounts	1,865,326	1,513,535	1,672,640
Prepaid expenses	<u>142,331</u>	<u>111,874</u>	<u>106,082</u>
Total current assets	<u>37,335,073</u>	<u>41,188,435</u>	<u>37,241,378</u>
RESTRICTED ASSETS			
Cash	1,133,793	743,641	507,430
Investments in repurchase agreements and certificates of deposits with the State Treasury	17,334,751	21,025,752	31,850,599
Due from other governments	-	32,089	44,369
Accrued interest receivable	<u>10,970</u>	<u>6,478</u>	<u>8,546</u>
Total restricted assets	<u>18,479,514</u>	<u>21,807,960</u>	<u>32,410,944</u>
NON-CURRENT ASSETS			
Capital assets:			
Land	7,361,810	7,361,810	7,361,810
Buildings, net of accumulated depreciation	36,201,646	37,024,100	28,984,585
Machinery and equipment, net of accumulated depreciation	1,713,214	1,763,077	1,107,916
Land improvements, net of accumulated depreciation	15,758,543	15,702,652	17,322,313
Infrastructure, net of accumulated depreciation	35,338,260	19,948,998	19,750,608
Construction in progress	<u>16,819,457</u>	<u>19,156,301</u>	<u>15,872,321</u>
Total capital assets	113,192,930	100,956,938	90,399,553
Unamortized bond issue costs	<u>25,506</u>	<u>30,899</u>	<u>36,292</u>
Total non-current assets	<u>113,218,436</u>	<u>100,987,837</u>	<u>90,435,845</u>
TOTAL ASSETS	<u><u>\$ 169,033,023</u></u>	<u><u>\$ 163,984,232</u></u>	<u><u>\$ 160,088,167</u></u>

LIABILITIES AND NET ASSETS

	<u>2003</u>	<u>2002</u>	<u>2001</u>
CURRENT LIABILITIES			
Accounts payable	\$ 1,186,773	\$ 1,258,178	\$ 801,867
Due to United States Army Corp of Engineers	-	-	2,598,550
Retainages payable	1,160,305	542,971	727,190
Accrued salaries	32,001	46,832	35,174
Accrued compensated absences	176,036	156,609	150,534
Accrued interest payable	595,177	672,874	737,363
Current maturities of note payable	-	72,741	68,623
Current maturities of bonds payable	3,665,000	3,470,000	3,955,000
	<u>6,815,292</u>	<u>6,220,205</u>	<u>9,074,301</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Accounts payable	214,243	938,966	1,727,108
Retainages payable	-	179,227	209,480
Customer deposits	132,881	134,181	133,580
	<u>347,124</u>	<u>1,252,374</u>	<u>2,070,168</u>
NON-CURRENT LIABILITIES			
Note payable, net of current portion	-	886,038	958,779
Bonds payable, net of current portion	33,780,000	37,445,000	40,915,000
	<u>33,780,000</u>	<u>38,331,038</u>	<u>41,873,779</u>
Total non-current liabilities	<u>33,780,000</u>	<u>38,331,038</u>	<u>41,873,779</u>
Total liabilities	<u>40,942,416</u>	<u>45,803,617</u>	<u>53,018,248</u>
NET ASSETS			
Invested in capital assets, net of related debt	85,852,976	72,125,961	67,783,151
Restricted	18,132,390	20,555,586	30,340,776
Unrestricted	24,105,241	25,499,068	8,945,992
	<u>128,090,607</u>	<u>118,180,615</u>	<u>107,069,919</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 169,033,023</u>	<u>\$ 163,984,232</u>	<u>\$ 160,088,167</u>

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

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
OPERATING REVENUES			
Charges for services	\$ 7,986,720	\$ 6,776,376	\$ 6,251,941
Revenue from leases	<u>11,739,673</u>	<u>11,870,693</u>	<u>11,368,666</u>
Total operating revenues	<u>19,726,393</u>	<u>18,647,069</u>	<u>17,620,607</u>
OPERATING EXPENSES			
General and administrative	2,506,484	2,496,048	2,392,818
Contractual services	5,216,353	4,131,080	3,418,307
Commodities	445,467	476,411	393,093
Depreciation	<u>3,230,353</u>	<u>2,624,896</u>	<u>3,187,259</u>
Total operating expenses	<u>11,398,657</u>	<u>9,728,435</u>	<u>9,391,477</u>
INCOME FROM OPERATIONS	<u>8,327,736</u>	<u>8,918,634</u>	<u>8,229,130</u>
NON-OPERATING REVENUE (EXPENSE)			
Revenue from county	995,037	1,022,475	1,194,122
Interest and other investment income	1,212,432	2,106,236	3,669,243
Other income	209,737	-	-
Interest and other fiscal charges	(1,387,324)	(1,376,251)	(2,273,319)
Loss on disposal of fixed assets	<u>(71,736)</u>	<u>(699)</u>	<u>(15,242)</u>
Total non-operating revenue(expense)	<u>958,146</u>	<u>1,751,761</u>	<u>2,574,804</u>
NET INCOME BEFORE CONTRIBUTIONS	9,285,882	10,670,395	10,803,934
Capital contributions	<u>624,110</u>	<u>440,301</u>	<u>3,997,222</u>
CHANGE IN NET ASSETS	9,909,992	11,110,696	14,801,156
TOTAL NET ASSETS - BEGINNING (See Note 17)	<u>118,180,615</u>	<u>107,069,919</u>	<u>92,268,763</u>
TOTAL NET ASSETS - ENDING	<u>\$ 128,090,607</u>	<u>\$ 118,180,615</u>	<u>\$ 107,069,919</u>

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

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003, 2002 AND 2001**

	<u>2003</u>	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 19,400,303	\$ 18,821,640	\$ 17,208,208
Cash payments for personnel services	(2,501,888)	(2,478,315)	(2,261,076)
Cash payment to suppliers for goods and services	(5,759,709)	(7,744,605)	(2,627,056)
Net cash provided by operating activities	<u>11,138,706</u>	<u>8,598,720</u>	<u>12,320,076</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from other governments	<u>1,209,861</u>	<u>1,019,890</u>	<u>2,446,149</u>
Net cash provided by noncapital financing activities	<u>1,209,861</u>	<u>1,019,890</u>	<u>2,446,149</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES			
Acquisition and construction of capital assets	(14,712,303)	(12,070,661)	(9,597,241)
Proceeds from disposal of capital assets	3,195	1,760	-
Payments of principal and interest on notes receivable	-	-	21,269
Interest paid	(1,955,078)	(2,122,646)	(2,324,780)
Principal paid on bonds payable	(3,470,000)	(3,955,000)	(3,842,000)
Principal paid on note payable	(958,779)	(68,623)	(64,800)
Net cash used in capital and related financial activities	<u>(21,092,965)</u>	<u>(18,215,170)</u>	<u>(15,807,552)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	(19,996,855)	(38,023,829)	(42,942,898)
Interest received	1,531,162	1,900,198	3,443,435
Proceeds from maturities of investments	<u>38,700,991</u>	<u>42,979,336</u>	<u>45,923,268</u>
Net cash provided by investing activities	<u>20,235,298</u>	<u>6,855,705</u>	<u>6,423,805</u>
Net change in cash and cash equivalents	<u>11,490,900</u>	<u>(1,740,855)</u>	<u>5,382,478</u>
Cash and cash equivalents at beginning of year	<u>7,790,600</u>	<u>9,531,455</u>	<u>4,148,977</u>
Cash and cash equivalents at end of year	<u>\$ 19,281,500</u>	<u>\$ 7,790,600</u>	<u>\$ 9,531,455</u>
CLASSIFIED ON THE COMPARATIVE BALANCE SHEETS AS FOLLOWS:			
CURRENT ASSETS			
Cash and cash equivalents	\$ 18,147,707	\$ 7,046,959	\$ 9,024,025
RESTRICTED ASSETS			
Cash	<u>1,133,793</u>	<u>743,641</u>	<u>507,430</u>
Cash and cash equivalents at end of year	<u>\$ 19,281,500</u>	<u>\$ 7,790,600</u>	<u>\$ 9,531,455</u>

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2003, 2002 AND 2001

	<u>2003</u>	<u>2002</u>	<u>2001</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from operations	<u>\$ 8,327,736</u>	<u>\$ 8,918,634</u>	<u>\$ 8,229,130</u>
Adjustments reconciling income from operations to net cash provided by operating activities:			
Depreciation	3,230,353	2,624,896	3,187,259
Provision for loss on accounts receivable	5,548	36,514	-
(Increase) decrease in assets:			
Accounts receivable	(330,338)	137,456	(412,399)
Prepaid expenses	(30,457)	(5,792)	(21,336)
Increase (decrease) in liabilities:			
Accounts payable	(67,432)	(3,131,322)	1,277,251
Accrued salaries	(14,831)	11,658	21,704
Accrued compensated absences	19,427	6,075	38,668
Customer deposits	(1,300)	601	(201)
Total adjustments	<u>2,810,970</u>	<u>(319,914)</u>	<u>4,090,946</u>
Net cash provided by operating activities	<u>\$ 11,138,706</u>	<u>\$ 8,598,720</u>	<u>\$ 12,320,076</u>

SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES

Contributions of capital assets acquired with grant funds	\$ 35,038	\$ 433,591	\$ 3,997,222
Donated capital assets received	-	6,710	-
Total noncash financing and investing activities	<u>\$ 35,038</u>	<u>\$ 440,301</u>	<u>\$ 3,997,222</u>

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

NOTES TO FINANCIAL STATEMENTS

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Mississippi State Port Authority at Gulfport (Authority) was purchased from the City of Gulfport by the State of Mississippi on September 26, 1960. The Mississippi Development Authority (MDA) is authorized by state law, Mississippi Code Ann. 1972 section 59-5-11, to oversee operations of the Authority. Furthermore, Mississippi Code Ann. 1972 Section 59-5-21 provides MDA with the authority to operate a port through a State Port Authority.

The Authority is governed by a board of five commissioners appointed to serve five year staggered terms. Three commissioners are appointed by the governor of Mississippi, one is appointed by the Harrison County Board of Supervisors and one is appointed by the City of Gulfport City Council.

Financial Reporting Entity

For financial reporting purposes, the Authority includes all funds that relate to Authority operations, debt service and construction projects. It is not intended to reflect information pertaining to the MDA or the State of Mississippi. As a component unit of the State of Mississippi, its financial information is included in the State of Mississippi's Comprehensive Annual Financial Report.

Basis of Accounting

These financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (GAAP) relative to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Authority has been identified as an "enterprise fund" as described by GAAP for governmental entities. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. As of July 1, 2001, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* (GASB 34). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. With this measurement focus, all assets and liabilities associated with the operation of the Authority are included on the balance sheets. The Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Estimates

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

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Authority. For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less, when purchased, to be cash equivalents.

Investments

The Authority reports investments at fair value. Unrealized gains and losses are reported in the Statement of Revenues, Expenses, and Changes in Net Assets.

Accounts Receivable

The Authority reports receivables at net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off through a charge against an existing allowance account or against earnings.

Property and Equipment

Property and equipment exceeding the State of Mississippi's mandated capitalization thresholds are stated at historical cost. Maintenance and repairs are expensed as incurred. Replacements that improve or extend the lives of property and exceed the mandated thresholds are capitalized. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives and capitalization thresholds are as follows:

	<u>Useful Life</u>	<u>Capitalization Threshold</u>
Furniture and equipment	3-15 Years	\$ 5,000
Land improvements	13-40 Years	25,000
Buildings	40 Years	50,000
Infrastructure improvements	20-50 Years	100,000

The Authority reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If these assets are considered to be impaired, the impairment loss recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalized Interest

All interest costs of that portion of the tax exempt borrowing relative to a construction project, less any related interest earned on the temporary investments acquired with such proceeds, are capitalized from the date of borrowing until the assets are ready for their intended use.

Unamortized Bond Issue Costs

Legal and accounting fees, printing costs and other expenses associated with the issuance of Bond Series 15 and Bond Series 16 are being amortized on the straight-line method over the term of the bonds.

Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees earn an amount of vacation pay monthly based on years of service and vacation pay is accrued as earned. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service.

Net Assets

The Authority's net assets are categorized as follows:

Invested in capital assets - represents total capital assets net of related debt.

Restricted - represents cash and investments restricted by bond covenants or other agreements net of related liabilities.

Unrestricted - represents resources not limited or restricted in use.

Revenues

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and leasing facilities in connection with the Authority's ongoing operations.

Advertising

The Authority expenses advertising costs as they are incurred.

Reclassifications

As of July 1, 2001 the Authority was required to implement GASB 34. Certain reclassifications were made to the fiscal year 2001 data in order to be consistent with the fiscal years 2002 and 2003 financial statement presentation under the new financial reporting model. Additionally, some other reclassifications have been made to the data of fiscal years 2001 and 2002 in order to be consistent with the fiscal year 2003 financial statements.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

The Authority provides services on credit to many of its customers in the ordinary course of business. The Authority's customers are in the gaming, shipping and marine terminal businesses. The Authority performs on-going credit evaluations of its customers and, generally, requires no collateral.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

The Authority deposits funds in financial institutions selected by the MDA or the State of Mississippi Treasury Department in accordance with state statutes.

All deposits, including short-term certificates of deposit, with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) must be collateralized in an amount equal to 105% of the uninsured deposit. The collateral must be held by the State of Mississippi Treasury Department or held in trust by a third-party financial institution in the State's name and evidenced by a safekeeping receipt issued to the State.

Qualifying collateral includes:

- a. Obligations of the U.S. Treasury and obligations guaranteed by the U.S. Government.
- b. Obligations of the Federal Home Loan Bank, Federal National Mortgage Association (Fannie Mae), Federal Land Banks and similar agencies approved by the state Treasurer.
- c. Tennessee Valley Authority obligations.
- d. Obligations of the State of Mississippi, its agencies, political subdivisions, and municipalities or any body corporate and politic created by the State of Mississippi.
- e. Legal obligations of any state, county, parish or municipality that are rated "A" or better.
- f. Surety bonds of any surety company authorized to do business in the State of Mississippi.
- g. All bonds authorized as security for state funds under items c, d, and e, inclusive, must be investment quality and any bonds under said items c, d, e and f, inclusive, which are rated substandard by any of the appropriate supervisory authorities having jurisdiction over said depository or by any recognized national rating agency engaged in the business of rating bonds, are not eligible for pledging as security.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

The responsibility for ensuring the proper collateralization of deposits rests with the State of Mississippi Treasury Department. At June 30, 2003, the carrying amount of the Authority's deposits (including restricted deposits) was \$2,328,646 and the bank balances totaled \$2,402,686. The total of the bank balance was covered by federal depository insurance or by collateral held by the State of Mississippi Treasury Department or its agent in the State's name. The money market funds of \$16,952,854 held by the trust department at one financial investment institution are not covered by federal depository insurance. Those funds are held in the Authority's name and are controlled solely by the Authority.

Investments

As of June 30, 2003, the fair value of the Authority's investments by type are as follows:

U.S. Government securities and agencies	\$ 17,064,780
Repurchase agreements	<u>17,334,751</u>
	<u>\$ 34,399,531</u>

Investments are reported on the balance sheet as of June 30, 2003 as follows:

Current Assets:

Investments	\$ 17,064,780
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Restricted Assets:

Investments in repurchase agreements and certificates of deposit with State Treasury	<u>17,334,751</u>
Total investments	<u>\$ 34,399,531</u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the financial institution with whom the Authority invests, the Authority will not be able to recover the value of its investments, which are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counter party or the counter party's trust department or agent but not in the Authority's name.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Custodial Credit Risk (continued)

As of June 30, 2003, the following investments were held by the counter party, or by its trust department or agent but not in the Authority's name:

Repurchase agreements	\$ <u>17,334,751</u>
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All investments made by the Mississippi State Port Authority are authorized by the Executive Director in accordance with all applicable state laws. As outlined by the Mississippi Code Section 27-105-33, the Authority invests in United States Government Instrumentalities. Mississippi Code Section 25-11-121 requires that all investments be clearly marked as to ownership and, to the extent possible, be registered in the name of the Authority. The repurchase agreements noted above are held in the name of the Mississippi State Treasury.

Credit Risk

As of June 30, 2003, the Authority's investments had the following credit ratings as published by Standard and Poor:

<u>Investment</u>	<u>Credit Rating</u>	<u>Fair Value</u>
U.S. Government securities and agencies	AAA	\$ 17,064,780
Repurchase Agreements	Unrated	<u>17,334,751</u>
		<u>\$ 34,399,531</u>

Mississippi State law requires a minimum quality rating of A-3 by Standard and Poor for corporate short-term obligations. This law also requires corporate and taxable municipal bonds to be of investment grade as rated by Standard and Poor, with bonds rated BAA/BBB not to exceed 5% of total fixed income investments. The highest credit rating that can be obtained from Standard and Poor is AAA.

Interest Rate Risk

Interest rate risk represents the Authority's exposure to fair value changes arising from changing interest rates over the term of the investments. The longer the period for which an interest rate is fixed, the greater the potential for variability in fair value resulting from changes in interest rates.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Interest Rate Risk (continued)

The future maturities of the Authority's investments as of June 30, 2003 are as follows:

Investment Type:	Fair Value	Investment Maturities (in years)	
		Less than 1	1-5
U.S. Government securities and agencies	\$ 17,064,780	\$ 5,029,590	\$ 12,035,190
Repurchase Agreements	17,334,751	17,334,751	-
	<u>\$ 34,399,531</u>	<u>\$ 22,364,341</u>	<u>\$ 12,035,190</u>

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

NOTE 3 – ACCOUNTS RECEIVABLE

The following is a summary of accounts receivable at June 30, 2003, 2002, and 2001.

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Accounts receivable	\$ 2,907,429	\$ 2,550,089	\$ 2,672,679
Less: allowance for doubtful accounts	<u>(1,042,103)</u>	<u>(1,036,554)</u>	<u>(1,000,039)</u>
Accounts receivable, net	<u>\$ 1,865,326</u>	<u>\$ 1,513,535</u>	<u>\$ 1,672,640</u>

Bad debt expense incurred in fiscal years ending June 30, 2003 and 2002 totaled \$5,548 and \$36,514, respectively. There was no bad debt expense in 2001. Bad debt expense has been netted against the revenue to which it relates in the Statements of Revenues, Expenses, and Changes in Net Assets.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 4 – CAPITAL ASSETS

An analysis of the changes in capital assets is as follows:

	Balance 6/30/02	Additions	Disposals	Transfers	Balance 6/30/03
Land	\$ 7,361,810	\$ -	\$ -	\$ -	\$ 7,361,810
Buildings	41,496,747	-	-	-	41,496,747
Machinery and equipment	7,568,355	136,149	(107,657)	-	7,596,847
Land improvements	23,783,021	-	-	847,209	24,630,230
Infrastructure	42,909,177	-	-	16,834,775	59,743,952
Construction in progress	19,156,301	15,416,345	(71,205)	(17,681,984)	16,819,457
Total capital assets	<u>142,275,411</u>	<u>15,552,494</u>	<u>(178,862)</u>	<u>-</u>	<u>157,649,043</u>
Less: accumulated depreciation for:					
Buildings	(4,472,647)	(822,454)	-	-	(5,295,101)
Machinery and equipment	(5,805,278)	(171,068)	92,713	-	(5,883,633)
Land improvements	(8,080,369)	(791,318)	-	-	(8,871,687)
Infrastructure	(22,960,179)	(1,445,513)	-	-	(24,405,692)
Total accumulated depreciation	<u>(41,318,473)</u>	<u>(3,230,353)</u>	<u>92,713</u>	<u>-</u>	<u>(44,456,113)</u>
Net capital assets	<u>\$ 100,956,938</u>	<u>\$ 12,322,141</u>	<u>\$ (86,149)</u>	<u>\$ -</u>	<u>\$ 113,192,930</u>

Construction in progress at June 30, 2003 is primarily composed of construction costs for terminal expansion and construction costs for rehabilitating berth facilities. For the years ended June 30, 2003 and 2002, \$495,450 and \$687,300, respectively, of interest incurred on tax exempt borrowings relative to construction projects was capitalized. No interest was capitalized during the year ended June 30, 2001.

NOTE 5 – NOTE PAYABLE

The Authority had one note outstanding to the MDA at June 30, 2002 and 2001. The note, issued February 2, 1992 in the original amount of \$1,500,575, was called during fiscal year 2003 and the full amount of \$958,779 outstanding at June 30, 2002 was paid during the year ended June 30, 2003 by the Authority.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 6 – BONDS PAYABLE

The Authority is responsible for the repayment of specific General Obligation Bonds of the State of Mississippi relative to Authority capital projects. These bonds are backed by the full faith and credit of the State of Mississippi but are being retired from the resources of the Authority and are presented as debts of the Authority.

The following is a summary of the bond activity during the fiscal year ended June 30, 2003:

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at 6/30/02	New Issues	Principal Payments	Balance at 6/30/03
15	\$15,000,000	8/1/93	8/1/03	4.75-5.40%	\$ 3,600,000	\$ -	\$ 1,755,000	\$ 1,845,000
16	40,000,000	9/1/98	9/1/18	4.00-5.50%	36,230,000	-	1,385,000	34,845,000
1991B	6,155,000	12/1/91	12/1/04	4.00-6.10%	1,085,000	-	330,000	755,000
					40,915,000	\$ -	\$ 3,470,000	37,445,000
Less: current maturities included in current liabilities					(3,470,000)			(3,665,000)
Bonds payable, net of current portion					\$37,445,000			\$33,780,000

The Authority's future principal and interest requirements related to the bonds payable are as follows:

Year(s)	Principal	Interest	Total
2004	\$ 3,665,000	\$ 1,714,076	\$ 5,379,076
2005	1,930,000	1,586,743	3,516,743
2006	1,610,000	1,509,417	3,119,417
2007	1,695,000	1,439,589	3,134,589
2008	1,780,000	1,365,300	3,145,300
2009-2013	10,370,000	5,441,140	15,811,140
2014-2018	13,310,000	2,501,250	15,811,250
2019	3,085,000	77,125	3,162,125
	\$37,445,000	\$15,634,640	\$53,079,640

Total interest incurred on bonds and notes payable together totaled \$1,877,381, \$2,056,106, and \$2,324,780 for fiscal years ended June 30, 2003, 2002, and 2001, respectively.

NOTE 7 – COMPLIANCE WITH BOND COVENANTS

The indenture covenants of the State of Mississippi General Obligation Bonds require the establishment of certain funds and periodic transfers of money to them as follows:

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 7 – COMPLIANCE WITH BOND COVENANTS (CONTINUED)

- A. Bond and Interest Sinking Fund - into which shall be transferred by the tenth day of the month preceding the payment date an amount to cover the principal and/or interest payment due.
- B. Operation Reserve Fund - into which shall be transferred monthly payments until such fund shall equal \$250,000.
- C. Bond Reserve Fund - into which shall be transferred monthly payments until such fund shall equal \$455,000.

The balances of the above funds at June 30, 2003, reported as restricted assets on the balance sheet, are as follows:

	<u>Balance</u> <u>June 30, 2003</u>	<u>Bond</u> <u>Requirements</u>	<u>Over (Under)</u> <u>Funded</u>
Bond and Interest Sinking Fund	\$ -	\$ -	\$ -
Operation Reserve Fund	250,000	250,000	-
Bond Reserve Fund	<u>455,000</u>	<u>455,000</u>	<u>-</u>
Totals	<u>\$ 705,000</u>	<u>\$ 705,000</u>	<u>\$ -</u>

NOTE 8 – CONDUIT (NO COMMITMENT) DEBT OBLIGATION

On May 1, 1991, the Mississippi Business Finance Corporation (Issuer), an agency of the State of Mississippi, under the direction of the MDA, issued 1991 Series B revenue bonds totaling \$10,000,000 under the provisions of a trust indenture to fund the costs of constructing, installing and equipping ore storage and handling facilities to be owned by the Authority. The 1991 Series B revenue bonds are payable solely from and secured by a pledge of rental payments to be received under the lease agreement with E. I. du Pont de Nemours and Company (DuPont) and are irrevocably and continually guaranteed by DuPont. These bonds are not a general obligation of the Issuer, MDA or the Authority and are not an indebtedness of the State of Mississippi or any political subdivision thereof. Neither the faith and credit of the Issuer, MDA or the Authority nor the taxing power of the State of Mississippi or any political subdivision thereof is pledged to the payment of the principal or interest of these bonds.

DuPont pays rental payments to the trust, which in turn pays debt service requirements. The effect of this transaction is that the Authority has received an asset paid for by DuPont. The facility was completed in 1994, and the total cost of \$9,723,685 was included in improvements as of June 30, 1994. At June 30, 2003, the entire \$10,000,000 of bonds remain outstanding. The bonds bear interest at a rate of 7.15% per annum. The bond agreement provides for semi-annual interest only payments until final maturity of May 1, 2016.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 9 – CAPITAL CONTRIBUTIONS

Accounting principles generally accepted in the United States of America for proprietary funds of governmental entities require that resources (i.e. grants, entitlements, or shared revenues) externally restricted for capital acquisition or construction are to be reported as capital contributions in the statement of revenues, expenses, and changes in net assets. Capital acquisitions acquired through such resources totaled \$624,110, \$440,301, and \$3,997,222 as of June 30, 2003, 2002, and 2001, respectively.

NOTE 10 – LEASING ARRANGEMENTS

Substantially all of the Authority's property and equipment are leased to various businesses for periods up to 40 years. All of the leases are accounted for as operating leases. Revenue from leases was \$11,739,673, \$11,870,693, and \$11,368,666 for 2003, 2002, and 2001, respectively. The leases to gaming operations include contingent rentals of \$7,895,130, \$8,187,503, and \$7,781,065 for 2003, 2002, and 2001, respectively. These contingent rentals are based on gross revenues of the gaming and certain non-gaming operations. Many of the leases with other operations include provisions for minimum thruput charges in order to fund debt service requirements relating to the specific facility leased. These thruput charges are included in operating revenues.

The following is a schedule of future minimum rentals for the next five years under material leases at June 30, 2003, not including contingent rentals, consumer price index adjustments, or thruput charges:

<u>Year</u>	<u>Amount</u>
2004	\$ 3,028,665
2005	2,791,320
2006	2,079,662
2007	1,999,096
2008	<u>1,999,096</u>
Total	<u>\$ 11,897,839</u>

NOTE 11 – DEFINED BENEFIT PENSION PLAN

Plan Description

The Authority 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. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS, 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 11 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary and the Authority is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Authority's contributions to PERS for the years ending June 30, 2003, 2002, and 2001 were \$189,345, \$191,102, and \$178,860, respectively, equal to the required contributions for each year.

NOTE 12 – ECONOMIC DEPENDENCY

One lessee accounted for approximately 44 percent of the operating revenues in fiscal year 2003, and approximately 50 percent of operating revenues in fiscal years 2002 and 2001. The two gaming operation lessees collectively accounted for approximately 50 percent of the operating revenues in the fiscal year ended June 30, 2003 and approximately 54 percent of the operating revenues in fiscal years 2002 and 2001.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Commitments

Construction in Progress

Construction in progress at June 30, 2003 is primarily composed of construction costs for berth rehabilitation and construction costs for a new terminal facility. The total amount of the construction contracts in progress as of June 30, 2003 is \$39,466,874, of which approximately \$16,819,456 in construction costs has been incurred through June 30, 2003. Of the construction costs incurred as of June 30, 2003, the Authority remains obligated to pay \$1,919,307 from unrestricted cash and \$214,358 from restricted cash. The Authority is further obligated to pay the remaining amount of approximately \$22,647,418 as work progresses on these construction contracts from Authority revenues and bonds, which are further described on the accompanying page.

Army Corp of Engineers

In January 2003, the Authority entered into an agreement with the Army Corp of Engineers to prepare a Gulfport Harbor General Reevaluation Report. The Authority's share of the costs related to the report is \$1,058,531. As of June 30, 2003, \$197,000 of the costs had been incurred and are recorded on the comparative statements of revenue, expenses, and changes in net assets as contractual services.

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001**

NOTE 13 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Commitments (Continued)

Maintenance Agreement

As of December 1, 1999, the Authority entered into a ten year lease agreement with Mississippi Power Company to provide the maintenance of underground electrical power distribution facilities. The rental agreement requires monthly payments of \$9,035, which are included in the Statements of Revenues, Expenses, and Changes in Net Assets as contractual services.

As of June 30, 2003, the future minimum maintenance payments are as follows:

<u>Year</u>	<u>Amount</u>
2004	\$ 108,420
2005	108,420
2006	108,420
2007	108,420
2008	108,420
Thereafter	<u>361,400</u>
Total	<u>\$ 903,500</u>

Rail Feasibility Study

On December 21, 2001, the Authority entered into a contracted agreement with a consulting firm to perform a rail feasibility study. The total contract amount was \$433,400 and as of June 30, 2003, the Authority's outstanding commitment related to the contract was approximately \$160,390.

Contingencies

Regulatory Environment

The Authority's future expansion plans, accounted for in construction in progress, are subject to various regulatory approvals by federal and state agencies which could affect the scope and timing of project completion.

NOTE 14 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omission; injuries to employees; and natural disasters. Significant losses are generally covered by commercial insurance with the exception of the self-insured risks discussed below. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the two prior years.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 14 – RISK MANAGEMENT (CONTINUED)

Self-Insurance

Tort Claims – In July 1993, the Authority became a member and participant in the Mississippi Tort Claims Fund under the administration of the Mississippi Tort Claims Board. This entity is a self-insurance tort (civil suit) claims fund organized under Mississippi Code Ann. 1972 Section 11-46-17. Membership for state agencies is mandatory. The group is self-insured for claims up to \$500,000 per occurrence. Under Section 11-46-15 and 11-46-16 of the Mississippi Code Ann. 1972, no court is allowed to issue a verdict in excess of the \$500,000 coverage, or if the entity carries excess liability insurance, in excess of the additional coverage. The members of the group are jointly and severally liable for the obligations of the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

Unemployment Insurance – In January 1979, the Authority became a member and participant in the Unemployment Insurance Fund under the administration of the Department of Finance and Administration, Office of Insurance. The entity is a self-insurance unemployment insurance fund organized under Mississippi Code Ann. 1972 section 71-5-355. Membership for state agencies is mandatory. The group is self-insured for all unemployment claims filed with the Mississippi Employment Security Commission by former State employees. The members of the group are jointly and severally liable for the obligations of the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

NOTE 15 – LEASES

The Authority leases its office space under an agreement that is classified as an operating lease. This lease had an initial period that expired in October 2002 and was renewed, at the Authority's option, for one additional three-year term. A portion of this office space was subleased under an initial one-year term, which expired in April 1999, but was extended to December 1999 and continued on a month to month basis through August 2000. Rent expense under this lease is reported net of sublease income and was \$133,822, \$127,357 and \$123,967 for the years ended June 30, 2003, 2002 and 2001, respectively. Sublease income for the years ended June 30, 2003 and 2002 was zero, and totaled \$3,390 for the year ended June 30, 2001.

In addition to office space, in December 1999, the Authority began renting modular buildings under an original three-year operating lease expiring December 2002 and subsequent month to month operating leases. The Authority provides one of these buildings to a lessee as part of the customer's lease agreement. Rent expense under these leases was \$10,390, \$10,772 and \$13,640 for the years ended June 30, 2003, 2002 and 2001, respectively.

Rent expenses are included in the Statements of Revenues, Expenses, and Changes in Net Assets as contractual services. The minimum future lease payments on these leases at June 30, 2002 are as follows:

<u>Year</u>	<u>Amount</u>
2004	\$137,054
2005	137,054
2006	<u>45,685</u>
Total	<u>\$319,793</u>

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003, 2002 AND 2001

NOTE 16 – SUBSEQUENT EVENTS

Subsequent to June 30, 2003 the Authority entered into a contract to repair and rehabilitate the rail track system on the West pier and a contract to demolish and remove gantry crane #1. The cost of each contract was \$94,890 and \$60,000, respectively.

NOTE 17 – PRIOR PERIOD ADJUSTMENT

It was determined that interest capitalized and included in construction in progress and buildings as of June 30, 2002 was overstated. A portion of the capitalized interest should have been included as interest expense for the year ended June 30, 2002. As a result, in order to present comparative amounts for fiscal year June 30, 2002, prior year financial statement balances were restated to reflect the corrections as summarized below:

	Buildings, Net of Accumulated Depreciation	Construction in Progress	Invested in Capital Assets, Net of Debt	Change in Net Assets
Balance as of June 30, 2002, as originally reported	\$ 37,109,287	\$ 19,537,759	\$ 72,592,606	\$ 11,577,341
Reclassification of interest expense	<u>(85,187)</u>	<u>(381,458)</u>	<u>(466,645)</u>	<u>(466,645)</u>
Balance as of June 30, 2002, restated	<u>\$ 37,024,100</u>	<u>\$ 19,156,301</u>	<u>\$ 72,125,961</u>	<u>\$ 11,110,696</u>

REPORT ON COMPLIANCE AND INTERNAL CONTROL



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

August 15, 2003

To the Board of Commissioners
Mississippi State Port Authority at Gulfport
Gulfport, Mississippi

We have audited the financial statements of the Mississippi State Port Authority at Gulfport, as of and for the years ended June 30, 2003, 2002 and 2001, and have issued our report thereon dated August 15, 2003. We conducted our audits 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.

Compliance

As part of obtaining reasonable assurance about whether the Mississippi State Port Authority at Gulfport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Mississippi State Port Authority at Gulfport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Mississippi State Port Authority at Gulfport's financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the Mississippi State Port Authority at Gulfport's financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.


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