MISSISSIPPI STATE PORT AUTHORITY
AT GULFPORT
(A COMPONENT UNIT OF THE STATE OF MISSISSIPPI)

FINANCIAL STATEMENTS

JUNE 30, 2004, 2003, AND 2002

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
LIST OF OFFICIALS
JUNE 30, 2004

Board of Commissioners		Term
John K. Rester	President	12/07/04
Dr. Roy L. Irons	Vice President	12/07/05
Dalton D. McGuire	Secretary	12/07/06
Lenwood S. Sawyer, Jr.	Treasurer	12/08/07
A.J.M. "Butch" Oustalet, III	Commissioner	12/09/08

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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JUNE 30, 2004, 2003, AND 2002

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

August 25, 2004

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

We have audited the accompanying comparative balance sheets of the Mississippi State Port Authority at Gulfport, a component unit of the State of Mississippi, as of June 30, 2004, 2003, and 2002, 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, 2004, 2003, and 2002, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2004, 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, regulations, contracts, and grants. 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.

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Members: American Institute of CPA's, Mississippi Society of CPA's, The AICPA Alliance for CPA Firms - Partnering for CPA Practice Success, National Association of Certified Valuation Analysts

To the Board of Commissioners
Mississippi State Port Authority
at Gulfport
August 25, 2003

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.

Alexander, Van Loon, Sloan, Levens & Favre

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
JOHN K. RESTER
President
DR. ROY L. IRONS
Vice President
DALTON D. MCGUIRE
Secretary

LENWOOD S. SAWYER, JR.
Treasurer
A.J.M. "BUTCH" OUSTALET, III
Commissioner
DONALD R. ALLEE
Executive Director & CEO
dra@shipmspa.com
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 the fiscal year ending June 30, 2004. 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 $8.7 million (or 6.8 percent) as a result of this year's operations.
- As of June 30, 2004, the Authority's operating revenues totaled $20.5 million, which exceed the operating expenses by $8.5 million. This compares to last year when operating revenues exceeded expenses by $8.3 million.
- The Authority's operating revenues increased to $20.5 million (or 4.1 percent). $1.1 million of the increased revenues are attributable to increased business for our non-maritime customers. Revenue at the container terminal continued to increase. This year's increase was 9.5% over the prior year.
- Operating expenses increased by 5.4 percent to $12 million. Of the $ .6 million of increased operating expenses, $1 million is directly attributed to depreciation. Other operating expenses decreased by $ .4 million.
- Total capital assets increased $8.4 million (or 7.4 percent) as a result of the Authority's capital expansion program. Series 16 bond funds expended on capital projects were in excess of $7.1 million with $11 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.

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Balance Sheet

The Balance Sheet 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 Balance Sheets as of June 30, 2004 with comparative amounts for June 30, 2003 is as follows:

COMPARATIVE BALANCE SHEETS

ASSETS

	2004	2003
CURRENT ASSETS		
Cash & investments	$37,650,537	$35,212,487
Accounts receivable	2,161,617	1,980,255
Prepaid expenses	124,814	142,331
Total current assets	39,936,968	37,335,073
RESTRICTED ASSETS		
Cash & investments	12,394,409	18,468,544
Accounts receivable	767	10,970
Total restricted assets	12,395,176	18,479,514
NON-CURRENT ASSETS		
Capital assets	121,599,660	113,192,930
Unamortized bond issue costs	23,824	25,506
Total non-current assets	121,623,484	113,218,436
TOTAL ASSETS	$173,955,628	$169,033,023

LIABILITIES & FUND EQUITY		
CURRENT LIABILITIES	**2004**	**2003**
Accounts payable	$1,790,450	$1,989,987
Retainages payable	91,600	1,123,162
Notes & bonds payable	1,930,000	3,665,000
Total current liabilities	3,812,050	6,778,149
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts payable	928,530	214,243
Retainages payable	393,339	37,143
Customer deposits	132,581	132,881
Total payable/restricted assets	1,454,450	384,267
NON-CURRENT LIABILITIES		
Note/bonds payable, net of current portion	31,850,000	33,780,000
Total liabilities	37,116,500	40,942,416
NET ASSETS		
Invested in capital assets, net of debt	91,491,997	85,852,976
Restricted	10,940,726	18,095,247
Unrestricted	34,406,404	24,142,384
Total net assets	136,839,128	128,090,607
TOTAL LIABILITIES & NET ASSETS	$173,955,628	$169,033,023

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 lease activities is reported here.

A summary of the Authority's Statement of Revenues, Expenses, and Changes in Net Assets as of June 30, 2004 with comparative amounts for June 30, 2003 is as follows:

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

OPERATING REVENUES	**2004**	**2003**
Charges for services	$7,690,509	$7,986,720
Revenue from leases	12,855,024	11,739,673
Total operating revenues	20,545,553	19,726,393
Operating expenses	12,020,240	11,398,657
INCOME FROM OPERATIONS	8,525,293	8,327,736
NON-OPERATING REVENUE (EXPENSE)		
Revenue from county	1,016,830	995,037
Investment & other income	406,825	1,422,169
Interest & other expenses	(1,209,892)	(1,387,324)
Loss on disposal of assets	(111,557)	(71,736)
Total non-operating revenue (expense)	102,206	958,146
NET INCOME BEFORE CONTRIBUTIONS	8,627,499	9,285,882
Capital contributions	121,022	624,110
CHANGE IN NET ASSETS	8,748,521	9,909,992
TOTAL NET ASSETS - BEGINNING	128,090,607	118,180,615
TOTAL NET ASSETS - ENDING	$136,839,128	$128,090,607

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 2004 the Authority experienced a 3.8 percent decrease in maritime revenues compared to a 15.5 percent increase in Fiscal Year 2003. Maritime revenues continue to support the Authority's operating expenses, before depreciation. Non-maritime revenues increased at a rate of 11.9 percent. The majority of the increase can be attributed to the expanded operation of one tenant. 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 $3.8 million (or 9.4 percent) during the past fiscal year, as the Port continues to extinguish its long-term debt. Total net assets increased $8.7 million (or 6.8 percent). $12.7 million was spent in Fiscal Year 2004 on the Authority's multi-year capital expansion program. Approximately $6.2 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 the Port's status as the number three container cargo port in the Gulf.

Analysis of the Authority's cash flows shows $13 million in cash provided by this year's operating activities while Fiscal Year 2003 provided $11.3 million in positive cash flows.

Other Potentially Significant Matters
Capital Asset Administration

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

	2004	2003
Buildings	$ 35.4	$ 36.2
Land	7.4	7.4
Land improvements	15.0	15.8
Infrastructure improvements	45.7	35.3
Furniture, fixtures & equipment	1.5	1.7
Construction in progress	16.6	16.8
Totals	$121.6	$113.2

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

	FY 04 Expenditure	Total Cost
W. Pier Cellular Cofferdam Substructure	$1.4	$12.4
East Terminal Barge Moorings	.1	.2

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

	FY 04 Expenditure	Expended to Date
Land Expansion, West Pier	$ 7.1	$ 8.8
Mitigation for Land Expansion	2.8	4.2
Bulk Handling Facility Upgrades	.8	.9
Total FY 04 major expenditures	$10.7	$13.9

Note 13 to the Financial Statements provides detail for construction commitments at June 30, 2004.

Debt Administration

OUTSTANDING DEBT, AT YEAR-END

General Obligation Bonds (backed by the State)	2004	2003
Series 15	$ 0	$ 1,845,000
Series 16	33,385,000	34,845,000
Series 1991-B	395,000	755,000
Totals	$ 33,780,000	$ 37,445,000

The Authority continues to extinguish its debt. At year end two bond issues remained outstanding, with Series 16 being the most significant. The final payment for Series 1991-B will be made in December 2004.

Economic Factors and Fiscal Year Ending June 30, 2005's Budget

The Port's management considered many factors when setting the Fiscal Year 2005 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. Continuing disruptions with poultry exports to Russia are expected. Public container terminal volumes continued to increase. This year's increase was 9.5 percent on top of last year's 50.7 percent increase. Total public container terminal revenues were in excess of $2.2 million this past year. We expect to maintain these volumes in the upcoming year. Other maritime tenants continue to face tough competition and therefore, we do not expect to see an increase in 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 $25.1 million has been budgeted for the next year. An updated Strategic Master Plan was accepted during the past year and implementation of the Plan will begin during Fiscal Year 2005. The plan prioritizes 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.

FINANCIAL STATEMENTS

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE BALANCE SHEETS
JUNE 30, 2004, 2003 AND 2002

ASSETS

	2004	2003	2002
CURRENT ASSETS			
Cash and cash equivalents	$ 3,147,357	$ 18,147,707	$ 7,046,959
Investments	34,503,180	17,064,780	32,290,837
Accrued interest receivable	201,845	114,929	225,230
Accounts receivable, net of allowance for doubtful accounts	1,838,750	1,865,326	1,513,535
Prepaid expenses	124,814	142,331	111,874
Due from other governments	121,022	-	-
Total current assets	39,936,968	37,335,073	41,188,435
RESTRICTED ASSETS			
Cash	987,658	1,133,793	743,641
Investments in repurchase agreements and certificates of deposits with the State Treasury	11,406,751	17,334,751	21,025,752
Due from other governments	-	-	32,089
Accrued interest receivable	767	10,970	6,478
Total restricted assets	12,395,176	18,479,514	21,807,960
NON-CURRENT ASSETS			
Capital assets:			
Land	7,361,810	7,361,810	7,361,810
Buildings, net of accumulated depreciation	35,378,683	36,201,646	37,024,100
Machinery and equipment, net of accumulated depreciation	1,488,114	1,713,214	1,763,077
Land improvements, net of accumulated depreciation	15,068,945	15,758,543	15,702,652
Infrastructure, net of accumulated depreciation	45,692,580	35,338,260	19,948,998
Construction in progress	16,609,528	16,819,457	19,156,301
Total capital assets	121,599,660	113,192,930	100,956,938
Unamortized bond issue costs	23,824	25,506	30,899
Total non-current assets	121,623,484	113,218,436	100,987,837
TOTAL ASSETS	$ 173,955,628	$ 169,033,023	$ 163,984,232

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE BALANCE SHEETS
JUNE 30, 2004, 2003 AND 2002

ASSETS

	2004	2003	2002
CURRENT ASSETS			
Cash and cash equivalents	$ 3,147,357	$ 18,147,707	$ 7,046,959
Investments	34,503,180	17,064,780	32,290,837
Accrued interest receivable	201,845	114,929	225,230
Accounts receivable, net of allowance for doubtful accounts	1,838,750	1,865,326	1,513,535
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Capital assets:			
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Buildings, net of accumulated depreciation	35,378,683	36,201,646	37,024,100
Machinery and equipment, net of accumulated depreciation	1,488,114	1,713,214	1,763,077
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TOTAL ASSETS	$ 173,955,628	$ 169,033,023	$ 163,984,232

LIABILITIES AND NET ASSETS

	2004	2003	2002
CURRENT LIABILITIES			
Accounts payable	**$ 1,028,858**	$ 1,186,773	$ 1,258,178
Retainages payable	**91,600**	1,123,162	542,971
Accrued salaries	**48,061**	32,001	46,832
Accrued compensated absences	**176,136**	176,036	156,609
Accrued interest payable	**537,395**	595,177	672,874
Current maturities of note payable	**-**	-	72,741
Current maturities of bonds payable	**1,930,000**	3,665,000	3,470,000
Total current liabilities	**3,812,050**	6,778,149	6,220,205
LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Accounts payable	**928,530**	214,243	938,966
Retainages payable	**393,339**	37,143	179,227
Customer deposits	**132,581**	132,881	134,181
Total liabilities payable from restricted assets	**1,454,450**	384,267	1,252,374
NON-CURRENT LIABILITIES			
Note payable, net of current portion	**-**	-	886,038
Bonds payable, net of current portion	**31,850,000**	33,780,000	37,445,000
Total non-current liabilities	**31,850,000**	33,780,000	38,331,038
Total liabilities	**37,116,500**	40,942,416	45,803,617
NET ASSETS			
Invested in capital assets, net of related debt	**91,491,997**	85,852,976	72,125,961
Restricted	**10,940,727**	18,095,247	20,555,586
Unrestricted	**34,406,404**	24,142,384	25,499,068
Total net assets	**136,839,128**	128,090,607	118,180,615
TOTAL LIABILITIES AND NET ASSETS	**$ 173,955,628**	$ 169,033,023	$ 163,984,232

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, 2004, 2003 AND 2002

	2004	2003	2002
OPERATING REVENUES			
Charges for services	**$ 7,690,509**	$ 7,986,720	$ 6,776,376
Revenue from leases	**12,855,024**	11,739,673	11,870,693
Total operating revenues	**20,545,533**	19,726,393	18,647,069
OPERATING EXPENSES			
General and administrative	**2,458,786**	2,506,484	2,496,048
Contractual services	**4,905,801**	5,216,353	4,131,080
Commodities	**399,494**	445,467	476,411
Depreciation	**4,256,159**	3,230,353	2,624,896
Total operating expenses	**12,020,240**	11,398,657	9,728,435
INCOME FROM OPERATIONS	**8,525,293**	8,327,736	8,918,634
NON-OPERATING REVENUE (EXPENSE)			
Revenue from county	**1,016,830**	995,037	1,022,475
Interest and other investment income	**391,625**	1,212,432	2,106,236
Other income	**15,200**	209,737	-
Interest and other fiscal charges	**(1,209,892)**	(1,387,324)	(1,376,251)
Loss on disposal of fixed assets	**(111,557)**	(71,736)	(699)
Total non-operating revenue(expense)	**102,206**	958,146	1,751,761
NET INCOME BEFORE CONTRIBUTIONS	**8,627,499**	9,285,882	10,670,395
Capital contributions	**121,022**	624,110	440,301
CHANGE IN NET ASSETS	**8,748,521**	9,909,992	11,110,696
TOTAL NET ASSETS - BEGINNING	**128,090,607**	118,180,615	107,069,919
TOTAL NET ASSETS - ENDING	**$ 136,839,128**	$ 128,090,607	$ 118,180,615

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, 2004, 2003 AND 2002

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ **20,594,489**	$ 19,400,303	$ 18,821,640
Cash payments for personnel services	**(2,416,075)**	(2,501,888)	(2,478,315)
Cash payment to suppliers for goods and services	**(5,194,552)**	(5,759,709)	(7,744,605)
Net cash provided by operating activities	**12,983,862**	11,138,706	8,598,720
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from other governments	**994,151**	1,209,861	1,019,890
Net cash provided by noncapital financing activities	**994,151**	1,209,861	1,019,890
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	**(12,565,133)**	(14,712,303)	(12,070,661)
Proceeds from disposal of capital assets	**-**	3,195	1,760
Insurance proceeds	**15,200**	-	-
Interest paid	**(1,714,077)**	(1,955,078)	(2,122,646)
Principal paid on bonds payable	**(3,665,000)**	(3,470,000)	(3,955,000)
Principal paid on note payable	**-**	(958,779)	(68,623)
Net cash used in capital and related financing activities	**(17,929,010)**	(21,092,965)	(18,215,170)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	**(39,862,605)**	(19,996,855)	(38,023,829)
Interest received	**759,117**	1,531,162	1,900,198
Proceeds from maturities of investments	**27,908,000**	38,700,991	42,979,336
Net cash provided by (used in) investing activities	**(11,195,488)**	20,235,298	6,855,705
Net change in cash and cash equivalents	**(15,146,485)**	11,490,900	(1,740,855)
Cash and cash equivalents at beginning of year	**19,281,500**	7,790,600	9,531,455
Cash and cash equivalents at end of year	$ **4,135,015**	$ 19,281,500	$ 7,790,600
CLASSIFIED ON THE COMPARATIVE BALANCE SHEETS AS FOLLOWS:			
CURRENT ASSETS			
Cash and cash equivalents	$ **3,147,357**	$ **18,147,707**	$ 7,046,959
RESTRICTED ASSETS			
Cash	**987,658**	**1,133,793**	743,641
Cash and cash equivalents at end of year	$ **4,135,015**	$ 19,281,500	$ 7,790,600

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	2004	2003	2002
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from operations	**$ 8,525,293**	$ 8,327,736	$ 8,918,634
Adjustments reconciling income from operations to net cash provided by operating activities:			
Depreciation	**4,256,159**	3,230,353	2,624,896
Provision for loss (recoveries) on accounts receivable	**(1,963)**	5,548	36,514
Adjustment to fixed assets recorded	**28,908**		
(Increase) decrease in assets:			
Accounts receivable	**51,218**	(330,338)	137,456
Prepaid expenses	**17,517**	(30,457)	(5,792)
Increase (decrease) in liabilities:			
Accounts payable	**90,870**	(67,432)	(3,131,322)
Accrued salaries	**16,060**	(14,831)	11,658
Accrued compensated absences	**100**	19,427	6,075
Customer deposits	**(300)**	(1,300)	601
Total adjustments	**4,458,569**	2,810,970	(319,914)
Net cash provided by operating activities	**$ 12,983,862**	$ 11,138,706	$ 8,598,720
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES			
Contributions of capital assets acquired with grant funds	**$ -**	$ 35,038	$ 433,591
Donated capital assets received	**-**	-	6,710
Total noncash financing and investing activities	**$ -**	$ 35,038	$ 440,301

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

NOTES TO FINANCIAL STATEMENTS

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.

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:

	Useful Life	Capitalization Threshold
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

Capitalized Interest

Interest costs on outstanding debt are capitalized when incurred during the construction period.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Some reclassifications have been made to the data of fiscal years 2003 and 2002 in order to be consistent with the fiscal year 2004 financial statements.

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.

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, 2004, the carrying amount of the Authority's deposits (including restricted deposits) was $1,941,769 and the bank balances totaled $2,187,105. 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 $2,193,245 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, 2004, the fair value of the Authority's investments by type are as follows:

U.S. Government securities and agencies	$ 34,503,180
Repurchase agreements	11,406,751
	$ 45,909,931

Investments are reported on the balance sheet as of June 30, 2004 as follows:

Current Assets:	
Investments	$ 34,503,180
Restricted Assets:	
Investments in repurchase agreements and certificates of deposit with State Treasury	11,406,751
Total investments	$ 45,909,931

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.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Custodial Credit Risk (continued)

As of June 30, 2004, 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	$ 11,406,751

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, 2004, the Authority's investments had the following credit ratings as published by Standard and Poor:

Investment	Credit Rating	Fair Value
U.S. Government securities and agencies	AAA	$ 34,503,180
Repurchase Agreements	Unrated	11,406,751
		$ 45,909,931

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.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Interest Rate Risk (continued)

The future maturities of the Authority's investments as of June 30, 2004 are as follows:

Investment Type:	Fair Value	Investment Maturities (in years) Less than 1	1-5
U.S. Government securities and agencies	$ 34,503,180	$ -	$ 34,503,180
Repurchase Agreements	11,406,751	11,406,751	-
	$ 45,909,931	$ 11,406,751	$ 34,503,180

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, 2004, 2003, and 2002.

	2004	2003	2002
Accounts receivable	$ 2,878,890	$ 2,907,429	$ 2,550,089
Less: allowance for doubtful accounts	(1,040,140)	(1,042,103)	(1,036,554)
Accounts receivable, net	$ 1,838,750	$ 1,865,326	$ 1,513,535

Bad debt expense (recovery) for the fiscal years ending June 30, 2004, 2003, and 2002 totaled $(1,962), $5,548 and $36,514, respectively. Bad debt expense (recovery) has been netted against or included in the revenue to which it relates in the Statements of Revenues, Expenses, and Changes in Net Assets.

NOTE 4 – CAPITAL ASSETS

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

	Balance 6/30/2003	Additions	Disposals	Transfers	Balance 6/30/2004
Land	$ 7,361,810	$ -	$ -	$ -	$ 7,361,810
Buildings	41,496,747	-	-	-	41,496,747
Machinery and equipment	7,596,848	59,876	(2,050,226)	-	5,606,498
Land improvements	24,630,230	-	-	122,089	24,752,319
Infrastructure	59,743,952	-	-	12,802,411	72,546,363
Construction in progress	16,819,456	12,743,480	(28,908)	(12,924,500)	16,609,528
Total capital assets	157,649,043	12,803,356	(2,079,134)	-	168,373,265
Less: accumulated depreciation for:					
Buildings	(5,295,102)	(822,962)	-	-	(6,118,064)
Machinery and equipment	(5,883,634)	(173,420)	1,938,670	-	(4,118,384)
Land improvements	(8,871,687)	(811,687)	-	-	(9,683,374)
Infrastructure	(24,405,693)	(2,448,090)	-	-	(26,853,783)
Total accumulated depreciation	(44,456,116)	(4,256,159)	1,938,670	-	(46,773,605)
Net capital assets	$ 113,192,927	$ 8,547,197	$ (140,464)	$ -	$ 121,599,660

Construction in progress at June 30, 2004 is primarily composed of construction costs for terminal expansion and construction costs for rehabilitating berth facilities. For the years ended June 30, 2004, 2003, and 2002, $448,085, $495,450 and $687,300, respectively, of interest incurred on outstanding debt during the construction period was capitalized.

NOTE 5 – NOTE PAYABLE

The Authority had one note outstanding to the MDA at June 30, 2002. 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.

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, 2004:

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at 6/30/03	New Issues	Principal Payments	Balance at 6/30/04
15	$15,000,000	8/1/1993	8/1/2003	4.75-5.40%	$ 1,845,000	$ -	$ 1,845,000	$ -
16	40,000,000	9/1/1998	9/1/2018	4.00-5.50%	34,845,000	-	1,460,000	33,385,000
1991B	6,155,000	12/1/1991	12/1/2004	4.00-6.10%	755,000	-	360,000	395,000
					37,445,000	$ -	$ 3,665,000	33,780,000
Less: current maturities included in current liabilities					(3,665,000)			(1,930,000)
Bonds payable, net of current portion					$33,780,000			$31,850,000

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

Year(s)	Principal	Interest	Total
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	1,870,000	1,285,890	3,155,890
2010-2014	10,905,000	4,914,875	15,819,875
2015-2019	13,990,000	1,818,750	15,808,750
	$33,780,000	$13,920,564	$47,700,564

Total interest incurred on bonds and notes payable together totaled $1,656,294, $1,877,381, and $2,056,106 for fiscal years ended June 30, 2004, 2003, and 2002, 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:

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, 2004, reported as restricted assets on the balance sheet, are as follows:

	Balance June 30, 2004	Bond Requirements	Over (Under) Funded
Bond and Interest Sinking Fund	$ -	$ -	$ -
Operation Reserve Fund	250,000	250,000	-
Bond Reserve Fund	455,000	455,000	-
Totals	$ 705,000	$ 705,000	$ -

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, 2004, 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.

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 $121,022, $624,110, and $440,301 as of June 30, 2004, 2003, and 2002, 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 $12,855,024, $11,739,673, and $11,870,693 for 2004, 2003, and 2002, respectively. The leases to gaming operations include contingent rentals of $9,010,734, $7,895,130, and $8,187,503 for 2004, 2003, and 2002, 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, 2004, not including contingent rentals, consumer price index adjustments, or thruput charges:

Year	Amount
2005	$ 3,436,892
2006	2,604,164
2007	2,522,779
2008	938,240
2009	690,500
Total	$ 10,192,575

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.

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, 2004, 2003, and 2002 were $187,148, $189,345, and $191,102, 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 2004, approximately 44 percent of operating revenues in fiscal year 2003, and approximately 50 percent of operating revenues in fiscal year 2002. The two gaming operation lessees collectively accounted for approximately 53 percent of the operating revenues in the fiscal year ended June 30, 2004, 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 year 2002.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Commitments

Construction in Progress

Construction in progress at June 30, 2004 is primarily composed of construction costs for berth rehabilitation, land expansion, and bulk handling upgrades. The total amount of the construction contracts in progress as of June 30, 2004 is $29,250,386, of which $16,161,433 in construction costs has been incurred through June 30, 2004. Of the construction costs incurred as of June 30, 2004, the Authority remains obligated to pay $601,932 from unrestricted cash and $1,321,869 from restricted cash. The Authority is further obligated to pay the remaining amount of $13,088,952 as work progresses on these construction contracts from Authority revenues and bonds, which are further described on the accompanying page(s).

Army Corps of Engineers

In January 2003, the Authority entered into an agreement with the Army Corps 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, 2004 and June 30, 2003, $225,500 and $197,000, respectively, of the costs had been incurred and are recorded on the comparative statements of revenue, expenses, and changes in net assets as contractual services.

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, 2004, the future minimum maintenance payments are as follows:

Year	Amount
2005	$ 108,420
2006	108,420
2007	108,420
2008	108,420
2009	108,420
Thereafter	252,980
Total	$ 795,080

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.

Legal Matters

The Authority has been named as a co-defendant in a civil lawsuit brought about by 88 plaintiffs alleging various personal injury claims. According to legal counsel for the Authority, this litigation, though filed in December of 2003, is in its very early stages, with the plaintiffs having yet to identify any substantive information to support their claims, should any information exist. The Authority is rigorously defending this case and allegations made by the plaintiffs. Due to these factors, it is not possible at this time to evaluate the likelihood of an unfavorable outcome or the range of potential loss, if any. Therefore, no loss contingency has been recorded in the financial statements related to this matter.

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.

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 plan provides liability and tort claims insurance for its members according to limits established by the Mississippi Tort Claims Act. 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. Rent expense under this lease was $135,053, $133,822 and $127,357 for the years ended June 30, 2004, 2003 and 2002, respectively.

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 $8,750, $10,390 and $10,772 for the years ended June 30, 2004, 2003 and 2002, 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, 2004 are as follows:

Year	Amount
2005	$137,054
2006	45,685
Total	$182,739

REPORT ON COMPLIANCE AND INTERNAL CONTROL

Alexander | Van Loon | Sloan | Levens | Favre, PLLC

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

August 25, 2004

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 year ended June 30, 2004, and have issued our report thereon dated August 25, 2004. 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.

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 audit, 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Mississippi State Port Authority at Gulfport in a separate letter dated August 25, 2004.

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To the Board of Commissioners
Mississippi State Port Authority
at Gulfport
August 25, 2004

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.

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