

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

FINANCIAL STATEMENTS

JUNE 30, 2005, 2004, AND 2003



MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
LIST OF OFFICIALS
JUNE 30, 2005

Board of Commissioners

Term

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

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, 2005, 2004, AND 2003

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INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

August 15, 2005 (except for Note 17 dated
August 29, 2005)

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, 2005, 2004, and 2003, 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, 2005, 2004, and 2003, 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 15, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audits.

To the Board of Commissioners
Mississippi State Port Authority
at Gulfport
August 15, 2005

The Management's Discussion and Analysis on pages 3 through 11, 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
DR. ROY L. IRONS
President
DALTON D. MCGUIRE
Vice President
LENWOOD S. SAWYER, JR.
Secretary

A.J.M. "BUTCH" OUSTALET, III
Treasurer
JOHN K. RESTER
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 years ended June 30, 2005, 2004, and 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 \$8.5 million (or 6.2 percent) as a result of this year's operations.
- As of June 30, 2005, the Authority's operating revenues totaled \$21 million, which exceed the operating expenses by \$7.6 million. This compares to Fiscal Years 2004 and 2003 when operating revenues exceeded expenses by \$8.5 million and \$8.3 million, respectively.
- The Authority's operating revenues increased to \$21 million (or 2.2 percent). Non-maritime revenues increased by \$500,000. Maritime revenues were flat, due to the loss of our break bulk banana carrier in the fourth quarter of the year.
- Operating expenses increased by 11.2 percent to \$13.3 million. Of the \$1.3 million of increased operating expenses, over \$1.1 million is directly attributed to warehouse roof repairs.
- Total capital assets increased \$5.4 million (or 4.4 percent) as a result of the Authority's capital expansion program. Series 16 bond funds expended on capital projects were in excess of \$6.4 million with \$4.4 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 Comparative Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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, 2005 with comparative amounts for June 30, 2004 and June 30, 2003 is as follows:

COMPARATIVE BALANCE SHEETS			
ASSETS			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
CURRENT ASSETS			
Cash and investments	\$ 45,584,195	\$ 37,650,537	\$ 35,212,487
Accounts receivable	1,795,694	1,838,750	1,865,326
Other Receivables	309,582	322,867	114,929
Prepaid expenses	128,937	124,814	142,331
Restricted assets:			
Cash and investments	775,863	1,321,102	251,386
Interest receivable	691	767	-
	<u>48,594,962</u>	<u>41,258,837</u>	<u>37,586,459</u>
NON-CURRENT ASSETS			
Capital assets	126,974,413	121,599,660	113,192,930
Restricted assets:			
Cash and investments	4,511,038	11,073,307	18,217,158
Interest receivable	-	-	10,970
Unamortized bond issue costs	22,143	23,824	25,506
	<u>131,507,594</u>	<u>132,696,791</u>	<u>131,446,564</u>
TOTAL ASSETS	\$ <u>180,102,556</u>	\$ <u>173,955,628</u>	\$ <u>169,033,023</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Balance Sheet (Continued)

COMPARATIVE BALANCE SHEETS (Continued)			
LIABILITIES AND NET ASSETS			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES			
Accounts payable and accruals	\$ 1,865,660	\$ 1,790,450	\$ 1,989,987
Retainages payable	99,560	91,600	1,123,162
Bonds payable	1,610,000	1,930,000	3,665,000
Payable from restricted assets:			
Accounts payable and accruals	1,052,374	928,530	214,243
Retainages payable	<u>723,489</u>	<u>393,339</u>	<u>37,143</u>
Total current liabilities	<u>5,351,083</u>	<u>5,133,919</u>	<u>7,029,535</u>
NON-CURRENT LIABILITIES			
Bonds Payable	30,240,000	31,850,000	33,780,000
Payable form restricted assets:			
Customer deposits	<u>133,581</u>	<u>132,581</u>	<u>132,881</u>
Total non-current liabilities	<u>30,373,581</u>	<u>31,982,581</u>	<u>33,912,881</u>
NET ASSETS			
Invested in capital assets, net of related debt	95,124,405	91,491,998	85,852,976
Restricted	4,378,148	10,940,726	18,095,247
Unrestricted	<u>45,875,339</u>	<u>34,406,404</u>	<u>24,142,384</u>
Total net assets	<u>145,377,892</u>	<u>136,839,128</u>	<u>128,090,607</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 181,102,556</u>	<u>\$ 173,955,628</u>	<u>\$ 169,033,023</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 and the years presented for comparison. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Statement of Revenues, Expenses, and Changes in Net Assets (Continued)

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 Authority'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 for the fiscal years ended June 30, 2005 with comparative amounts for June 30, 2004 and 2003 is as follows:

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
OPERATING REVENUES			
Charges for services	\$ 7,678,038	\$ 7,690,509	\$ 7,986,720
Revenue from leases	13,313,515	12,855,024	11,739,673
Total operating revenues	<u>20,991,553</u>	<u>20,545,533</u>	<u>19,726,393</u>
OPERATING EXPENSES	<u>13,335,110</u>	<u>11,991,332</u>	<u>11,398,657</u>
INCOME FROM OPERATIONS	<u>7,656,443</u>	<u>8,554,201</u>	<u>8,327,736</u>
NON-OPERATING REVENUE (EXPENSES)			
Revenue from County	899,949	1,016,830	995,037
Investment and other income	1,012,412	406,825	1,422,169
Interest and other expenses	(702,107)	(1,209,892)	(1,387,324)
Loss on disposal of assets	(414,162)	(140,465)	(71,736)
Total non-operating revenue (expenses)	<u>796,092</u>	<u>73,298</u>	<u>958,146</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>8,452,535</u>	<u>8,627,499</u>	<u>9,285,882</u>
CAPITAL CONTRIBUTIONS	<u>86,229</u>	<u>121,022</u>	<u>624,110</u>
CHANGE IN NET ASSETS	8,538,764	8,748,521	9,909,992
TOTAL NET ASSETS - BEGINNING	<u>136,839,128</u>	<u>128,090,607</u>	<u>118,180,615</u>
TOTAL NET ASSETS - ENDING	<u>\$ 145,377,892</u>	<u>\$ 136,839,128</u>	<u>\$ 128,090,607</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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?" The Balance Sheet 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 2005 the Authority experienced a 1.4 percent increase in maritime revenues compared to a 3.8 percent decrease in Fiscal Year 2004 and 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 4.7 percent for Fiscal Year 2005 as compared to an 11.8 percent increase in Fiscal Year 2004 and a 2.7% decrease in Fiscal Year 2003. Non-maritime revenues support the debt service and capital expansion of the Authority. The Authority continues to utilize ad valorem tax revenues to retire debt.

The Authority's liabilities decreased another \$1.4 million (or 3.8 percent) during the past fiscal year. Total liabilities have decreased over the past two fiscal years by \$5.4 million (or 13.2%) as the Authority continues to extinguish its long-term debt. Total net assets increased \$8.5 million (or 6.2 percent). \$10.7 million was spent in Fiscal Year 2005 on the Authority's multi-year capital expansion program. Approximately \$3.7 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 a continuation of the positive trend. Current year operating activities provided \$11.8 million in cash as compared to \$13 million in the prior year and \$11.3 million in Fiscal Year 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Other Potentially Significant Matters

Capital Asset Administration

CAPITAL ASSETS AS OF JUNE 30 (Net of Depreciation, in Millions)			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Land	\$ 7.4	\$ 7.4	\$ 7.4
Buldings	34.5	35.4	36.2
Machinery and equipment	1.5	1.5	1.7
Land improvements	15.3	15.0	15.8
Infrastructure improvements	43.1	45.7	35.3
Contruction in progress	25.2	16.6	16.8
	<u>\$ 127.0</u>	<u>\$ 121.6</u>	<u>\$ 113.2</u>

As discussed in Note 17 of the financial statements, many of the Authority's assets listed above were impaired on August 29, 2005 by Hurricane Katrina. The total loss incurred has not been determined at this time; however, financial assistance from a variety of sources (e.g., Federal government, State government, and insurance coverage) is expected to become available to assist the Authority in the repair and replacement of impaired assets.

Note 14 to the Financial Statements provides detail of the Authority's outstanding construction commitments as of June 30, 2005.

Debt Administration

DEBT OUTSTANDING AS OF JUNE 30			
	<u>2005</u>	<u>2004</u>	<u>2003</u>
General Obligation Bonds: (backed by the State of Mississippi)			
Series 15	\$ -	\$ -	\$ 1,845,000
Series 16	31,850,000	33,385,000	34,845,000
Series 1991-B	-	395,000	755,000
Total bonds outstanding	<u>\$ 31,850,000</u>	<u>\$ 33,780,000</u>	<u>\$ 37,445,000</u>

The Authority continues to extinguish its debt. As of June 30, 2005, only one bond issue (Series 16 issued in 1998) remained outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Other Potentially Significant Matters (Continued)

Economic Factors and Fiscal Year Ending June 30, 2006's Budget

The Authority's management considered many factors when setting the Fiscal Year 2006 budget. One of these factors was that the Authority's function is to provide marine terminal services to its customers in order to 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. With the completion of the roll-on/roll-off ramp and the subsequent dredging at Berth 7, we expect to aggressively market this berth and to attract additional container cargoes. As our existing maritime tenants continue to face tough competition, 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 \$ 150,000 (or 1.45%). In progressing with the Authority's capital improvement plan \$19.5 million has been budgeted for the next year. A comprehensive engineering services agreement was put in place at the end of the fiscal year to facilitate with the implementation of the Strategic Master Plan that was approved in Fiscal Year 2004.

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, 2005, 2004 AND 2003

ASSETS

	<u>2005</u>	<u>2004</u>	<u>2003</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 6,656,575	\$ 3,147,357	\$ 18,147,707
Investments	38,927,620	34,503,180	17,064,780
Accrued interest receivable	254,522	201,845	114,929
Accounts receivable, net of allowance for doubtful accounts	1,795,694	1,838,750	1,865,326
Prepaid expenses	128,937	124,814	142,331
Due from other governments	55,060	121,022	-
Restricted assets:			
Cash and cash equivalents	661,569	150,077	251,386
Investments in repurchase agreements and certificates of deposits with the State Treasury	1,114,294	1,171,025	-
Accrued interest receivable	691	767	-
	<u>49,594,962</u>	<u>41,258,837</u>	<u>37,586,459</u>
NON-CURRENT ASSETS			
Capital assets:			
Land	7,361,810	7,361,810	7,361,810
Buildings, net of accumulated depreciation	34,476,067	35,378,683	36,201,646
Machinery and equipment, net of accumulated depreciation	1,535,031	1,488,114	1,713,214
Land improvements, net of accumulated depreciation	15,289,537	15,068,945	15,758,543
Infrastructure, net of accumulated depreciation	43,101,592	45,692,580	35,338,260
Construction in progress	25,210,376	16,609,528	16,819,457
Total capital assets	<u>126,974,413</u>	<u>121,599,660</u>	<u>113,192,930</u>
Restricted assets:			
Cash and cash equivalents	838,581	837,581	882,407
Investments in repurchase agreements and certificates of deposits with the State Treasury	3,672,457	10,235,726	17,334,751
Accrued interest receivable	-	-	10,970
Unamortized bond issue costs	<u>22,143</u>	<u>23,824</u>	<u>25,506</u>
Total non-current assets	<u>131,507,594</u>	<u>132,696,791</u>	<u>131,446,564</u>
TOTAL ASSETS	<u><u>\$ 181,102,556</u></u>	<u><u>\$ 173,955,628</u></u>	<u><u>\$ 169,033,023</u></u>

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE BALANCE SHEETS
JUNE 30, 2005, 2004 AND 2003

ASSETS

	<u>2005</u>	<u>2004</u>	<u>2003</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 6,656,575	\$ 3,147,357	\$ 18,147,707
Investments	38,927,620	34,503,180	17,064,780
Accrued interest receivable	254,522	201,845	114,929
Accounts receivable, net of allowance for doubtful accounts	1,795,694	1,838,750	1,865,326
Prepaid expenses	128,937	124,814	142,331
Due from other governments	55,060	121,022	-
Restricted assets:			
Cash and cash equivalents	661,569	150,077	251,386
Investments in repurchase agreements and certificates of deposits with the State Treasury	1,114,294	1,171,025	-
Accrued interest receivable	691	767	-
	<u>49,594,962</u>	<u>41,258,837</u>	<u>37,586,459</u>
NON-CURRENT ASSETS			
Capital assets:			
Land	7,361,810	7,361,810	7,361,810
Buildings, net of accumulated depreciation	34,476,067	35,378,683	36,201,646
Machinery and equipment, net of accumulated depreciation	1,535,031	1,488,114	1,713,214
Land improvements, net of accumulated depreciation	15,289,537	15,068,945	15,758,543
Infrastructure, net of accumulated depreciation	43,101,592	45,692,580	35,338,260
Construction in progress	25,210,376	16,609,528	16,819,457
	<u>126,974,413</u>	<u>121,599,660</u>	<u>113,192,930</u>
Restricted assets:			
Cash and cash equivalents	838,581	837,581	882,407
Investments in repurchase agreements and certificates of deposits with the State Treasury	3,672,457	10,235,726	17,334,751
Accrued interest receivable	-	-	10,970
Unamortized bond issue costs	22,143	23,824	25,506
	<u>131,507,594</u>	<u>132,696,791</u>	<u>131,446,564</u>
TOTAL ASSETS	\$ 181,102,556	\$ 173,955,628	\$ 169,033,023

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES			
Accounts payable	\$ 1,115,793	\$ 1,028,858	\$ 1,186,773
Retainages payable	99,560	91,600	1,123,162
Accrued salaries	51,586	48,061	32,001
Accrued compensated absences	183,872	176,136	176,036
Accrued interest payable	514,409	537,395	595,177
Current maturities of bonds payable	1,610,000	1,930,000	3,665,000
Payable from restricted assets:			
Accounts payable	1,052,374	928,530	214,243
Retainages payable	723,489	393,339	37,143
	<hr/>	<hr/>	<hr/>
Total current liabilities	5,351,083	5,133,919	7,029,535
NON-CURRENT LIABILITIES			
Bonds payable, net of current portion	30,240,000	31,850,000	33,780,000
Payable from restricted assets:			
Customer deposits	133,581	132,581	132,881
	<hr/>	<hr/>	<hr/>
Total non-current liabilities	30,373,581	31,982,581	33,912,881
	<hr/>	<hr/>	<hr/>
Total liabilities	35,724,664	37,116,500	40,942,416
NET ASSETS			
Invested in capital assets, net of related debt	95,124,405	91,491,998	85,852,976
Restricted	4,378,148	10,940,726	18,095,247
Unrestricted	45,875,339	34,406,404	24,142,384
	<hr/>	<hr/>	<hr/>
Total net assets	145,377,892	136,839,128	128,090,607
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 181,102,556	\$ 173,955,628	\$ 169,033,023

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, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
OPERATING REVENUES			
Charges for services	\$ 7,678,038	\$ 7,690,509	\$ 7,986,720
Revenue from leases	<u>13,313,515</u>	<u>12,855,024</u>	<u>11,739,673</u>
Total operating revenues	<u>20,991,553</u>	<u>20,545,533</u>	<u>19,726,393</u>
OPERATING EXPENSES			
General and administrative	2,481,251	2,458,786	2,506,484
Contractual services	6,030,619	4,876,893	5,216,353
Commodities	409,158	399,494	445,467
Depreciation	<u>4,414,082</u>	<u>4,256,159</u>	<u>3,230,353</u>
Total operating expenses	<u>13,335,110</u>	<u>11,991,332</u>	<u>11,398,657</u>
INCOME FROM OPERATIONS	<u>7,656,443</u>	<u>8,554,201</u>	<u>8,327,736</u>
NON-OPERATING REVENUE (EXPENSES)			
Revenue from County	899,949	1,016,830	995,037
Interest and other investment income	1,012,412	391,625	1,212,432
Other income	-	15,200	209,737
Interest and other fiscal charges	(702,107)	(1,209,892)	(1,387,324)
Loss on disposal of fixed assets	<u>(414,162)</u>	<u>(140,465)</u>	<u>(71,736)</u>
Total non-operating revenue (expenses)	<u>796,092</u>	<u>73,298</u>	<u>958,146</u>
NET INCOME BEFORE CONTRIBUTIONS	8,452,535	8,627,499	9,285,882
Capital contributions	<u>86,229</u>	<u>121,022</u>	<u>624,110</u>
CHANGE IN NET ASSETS	8,538,764	8,748,521	9,909,992
TOTAL NET ASSETS - BEGINNING	<u>136,839,128</u>	<u>128,090,607</u>	<u>118,180,615</u>
TOTAL NET ASSETS - ENDING	<u>\$ 145,377,892</u>	<u>\$ 136,839,128</u>	<u>\$ 128,090,607</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, 2005, 2004 AND 2003**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 21,035,132	\$ 20,594,489	\$ 19,400,303
Cash payments for personnel services	(2,496,542)	(2,416,075)	(2,501,888)
Cash payments to suppliers of goods and services	(6,758,715)	(5,194,552)	(5,759,709)
Net cash provided by operating activities	<u>11,779,875</u>	<u>12,983,862</u>	<u>11,138,706</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from other governments	<u>900,426</u>	<u>994,151</u>	<u>1,209,861</u>
Net cash provided by noncapital financing activities	<u>900,426</u>	<u>994,151</u>	<u>1,209,861</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash received from capital grants	152,191	-	-
Acquisition and construction of capital assets	(8,527,003)	(12,565,133)	(14,712,303)
Proceeds from disposal of capital assets	81,917	-	3,195
Insurance proceeds	-	15,200	-
Interest paid	(1,591,067)	(1,714,077)	(1,955,078)
Principal paid on bonds payable	(1,930,000)	(3,665,000)	(3,470,000)
Principal paid on note payable	-	-	(958,779)
Net cash used in capital and related financing activities	<u>(11,813,962)</u>	<u>(17,929,010)</u>	<u>(21,092,965)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	(6,475,037)	(39,862,605)	(19,996,855)
Interest received	1,010,408	759,117	1,531,162
Proceeds from maturities of investments	8,620,000	27,908,000	38,700,991
Net cash provided by (used in) investing activities	<u>3,155,371</u>	<u>(11,195,488)</u>	<u>20,235,298</u>
Net change in cash and cash equivalents	<u>4,021,710</u>	<u>(15,146,485)</u>	<u>11,490,900</u>
Cash and cash equivalents at beginning of year	<u>4,135,015</u>	<u>19,281,500</u>	<u>7,790,600</u>
Cash and cash equivalents at end of year	<u>\$ 8,156,725</u>	<u>\$ 4,135,015</u>	<u>\$ 19,281,500</u>
CLASSIFIED ON THE COMPARATIVE BALANCE SHEETS AS FOLLOWS:			
CURRENT ASSETS			
Cash and cash equivalents	\$ 6,656,575	\$ 3,147,357	\$ 18,147,707
Retricted Assets:			
Cash and cash equivalents	661,569	150,077	251,386
NON-CURRENT ASSETS			
Restricted Assets:			
Cash and cash equivalents	<u>838,581</u>	<u>837,581</u>	<u>882,407</u>
Cash and cash equivalents at end of year	<u>\$ 8,156,725</u>	<u>\$ 4,135,015</u>	<u>\$ 19,281,500</u>

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2005, 2004 AND 2003**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from operations	\$ 7,656,443	\$ 8,554,201	\$ 8,327,736
Adjustments reconciling income from operations to net cash provided by operating activities:			
Depreciation	4,414,082	4,256,159	3,230,353
Provision for loss (recoveries) on accounts receivable	2,529	(1,963)	5,548
(Increase) decrease in assets:			
Accounts receivable	40,050	51,218	(330,338)
Prepaid expenses	(4,123)	17,517	(30,457)
Increase (decrease) in liabilities:			
Accounts payable	(314,815)	90,870	(67,432)
Accrued salaries	(23,027)	16,060	(14,831)
Accrued compensated absences	7,736	100	19,427
Customer deposits	1,000	(300)	(1,300)
Total adjustments	<u>4,123,432</u>	<u>4,429,661</u>	<u>2,810,970</u>
Net cash provided by operating activities	<u>\$ 11,779,875</u>	<u>\$ 12,983,862</u>	<u>\$ 11,138,706</u>

SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES

Contributions of capital assets acquired with grant funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,038</u>
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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, 2005, 2004, AND 2003

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. 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, 2005, 2004, AND 2003

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 terms of the bonds.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003

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.

Reclassifications

Certain reclassifications have been made to the data of fiscal year 2003 and 2004 in order to be consistent with the fiscal year 2005 financial statement presentation.

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.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003

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.

The responsibility for ensuring the proper collateralization of deposits rests with the State of Mississippi Treasury Department. At June 30, 2005, 2004, and 2003 the carrying amount of the Authority's deposits (including restricted deposits) were \$5,624,564, \$1,941,769, and \$2,328,646 respectively while the bank balances totaled \$5,809,136, \$2,187,105, and \$2,402,686, respectively. The total of the bank balances were covered by federal depository insurance or by collateral held by the State of Mississippi Treasury Department or its agent in the State's name. At June 30, 2005, 2004, and 2003, the money market funds of \$2,531,959, \$2,193,245, and \$16,952,854, respectively, 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.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
U.S. Government securities and agencies	\$ 38,927,620	\$ 34,503,180	\$ 17,064,780
Repurchase agreements	<u>4,786,751</u>	<u>11,406,751</u>	<u>17,334,751</u>
	<u>\$ 43,714,371</u>	<u>\$ 45,909,931</u>	<u>\$ 34,399,531</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current Assets:			
Investments	\$ 38,927,620	\$ 34,503,180	\$ 17,064,780
Investments in repurchase agreements and certificates of deposit with State Treasury	1,114,294	1,171,025	-
Non-Current Assets			
Investments in repurchase agreements and certificates of deposit with State Treasury	<u>3,672,457</u>	<u>10,235,726</u>	<u>17,334,751</u>
Total investments	<u>\$ 43,714,371</u>	<u>\$ 45,909,931</u>	<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 which 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.

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Repurchase agreements	<u>\$ 4,786,751</u>	<u>\$ 11,406,751</u>	<u>\$ 17,334,751</u>

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Custodial Credit Risk (Continued)

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, 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>2005</u>	<u>2004</u>	<u>2003</u>
U.S. Government securities and agencies	AAA	\$ 38,927,620	\$ 34,503,180	\$ 17,064,780
Repurchase Agreements	Unrated	4,786,751	11,406,751	17,334,751
		<u>\$ 43,714,371</u>	<u>\$ 45,909,931</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, 2005, 2004, AND 2003

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk (continued)

The future maturities of the Authority's investments as of June 30, 2005 are as follows:

Investment Type:	Fair Value	Investment Maturities (in years)	
		Less than 1	1-5
U.S. Government securities and agencies	\$ 38,927,620	\$ 22,643,125	\$ 16,284,495
Repurchase Agreements	4,786,751	4,786,751	-
	<u>\$ 43,714,371</u>	<u>\$ 27,429,876</u>	<u>\$ 16,284,495</u>

The Authority has developed a formal written investment policy which governs the investment process and establishes parameters to be followed in order to mitigate investment risk to include credit and interest rate risk.

NOTE 3: ACCOUNTS RECEIVABLE

The following is a summary of accounts receivable at June 30, 2005, 2004, and 2003.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Accounts receivable from customers	\$ 2,838,863	\$ 2,878,890	\$ 2,907,429
Less: allowance for doubtful accounts	<u>(1,042,669)</u>	<u>(1,040,140)</u>	<u>(1,042,103)</u>
Accounts receivable, net	<u>\$ 1,796,194</u>	<u>\$ 1,838,750</u>	<u>\$ 1,865,326</u>

Bad debt expense (recovery) for the fiscal years ended June 30, 2005, 2004, and 2003 totaled \$2,529, \$(1,962), and \$5,548, 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.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003

NOTE 4: CAPITAL ASSETS

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

For the fiscal year ended June 30, 2005

	Balance 7/1/2004	Additions	Disposals	Transfers	Balance 6/30/2005
Land	\$ 7,361,810	\$ -	\$ -	\$ -	\$ 7,361,810
Buildings	41,496,747	-	(135,000)	-	41,361,747
Machinery and equipment	5,606,498	79,689	(129,245)	159,950	5,716,892
Land improvements	24,752,319	-	(532,196)	1,391,456	25,611,579
Infrastructure	72,546,363	-	(440,505)	-	72,105,858
Construction in progress	16,609,528	10,205,235	(52,981)	(1,551,406)	25,210,376
Total capital assets	168,373,265	10,284,924	(1,289,927)	-	177,368,262
Less accumulated depreciation for:					
Buildings	(6,118,064)	(821,163)	53,547	-	(6,885,680)
Machinery and equipment	(4,118,384)	(154,801)	91,324	-	(4,181,861)
Land improvements	(9,683,374)	(847,132)	208,464	-	(10,322,042)
Infrastructure	(26,853,783)	(2,590,986)	440,503	-	(29,004,266)
Total accumulated depreciation	(46,773,605)	(4,414,082)	793,838	-	(50,393,849)
Net capital assets	\$ 121,599,660	\$ 5,870,842	\$ (496,089)	\$ -	\$ 126,974,413

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003

NOTE 4: CAPITAL ASSETS (Continued)

For the fiscal year ended June 30, 2004

	Balance 7/1/2003	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

For the fiscal year ended June 30, 2003

	Balance 7/1/2002	Additions	Disposals	Transfers	Balance 6/30/2003
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	142,275,411	15,552,494	(178,862)	-	157,649,043

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003

NOTE 4: CAPITAL ASSETS (Continued)

For the fiscal year ended June 30, 2003 (Continued)

	Balance 7/1/2002	Additions	Disposals	Transfers	Balance 6/30/2003
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	(41,318,473)	(3,230,353)	92,713	-	(44,456,113)
Net capital assets	\$ 100,956,938	\$ 12,322,141	\$ (86,149)	-	\$ 113,192,930

Construction in progress at June 30, 2005 is primarily composed of construction costs for terminal expansion and construction costs for rehabilitating berth facilities. For the years ended June 30, 2005, 2004, and 2003, \$867,655, \$448,085, and \$495,450, 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.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003

NOTE 6: BONDS PAYABLE (Continued)

An analysis of bond activity is as follows:

For the fiscal year ended June 30, 2005

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at 7/1/2004	Principal Payments	Balance at 6/30/2005
16	\$ 40,000,000	9/1/1998	9/1/2018	4.00-5.50%	\$ 33,385,000	\$ 1,535,000	\$ 31,850,000
1991B	6,155,000	12/1/1991	12/1/2004	4.00-6.10%	395,000	395,000	-
Total bonds payable					33,780,000	<u>\$ 1,930,000</u>	31,850,000
Less: current maturities included in current liabilities					(1,930,000)		(1,610,000)
Bonds payable, net of current portion					<u>\$ 31,850,000</u>		<u>\$ 30,240,000</u>

For the fiscal year ended June 30, 2004

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at 7/1/2003	Principal Payments	Balance at 6/30/2004
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
Total bonds payable					37,445,000	<u>\$ 3,665,000</u>	33,780,000
Less: current maturities included in current liabilities					(3,665,000)		(1,930,000)
Bonds payable, net of current portion					<u>\$ 33,780,000</u>		<u>\$ 31,850,000</u>

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003

NOTE 6: BONDS PAYABLE (Continued)

For the fiscal year ended June 30, 2003

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at 7/31/2002	Principal Payments	Balance at 6/30/2003
15	\$ 15,000,000	8/1/1993	8/1/2003	4.75-5.40%	\$ 3,600,000	\$ 1,755,000	\$1,845,000
16	40,000,000	9/1/1998	9/1/2018	4.00-5.50%	36,230,000	1,385,000	34,845,000
1991B	6,155,000	12/1/1991	12/1/2004	4.00-6.10%	1,085,000	330,000	755,000
Total bonds payable					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 as of June 30, 2005 related to the bonds payable are as follows:

Year(s)	Principal	Interest	Total
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	1,970,000	1,195,500	3,165,500
2011-2015	11,460,000	4,355,750	15,815,750
2016-2020	11,465,000	1,182,375	12,647,375
	\$ 31,850,000	\$ 12,333,821	\$ 44,183,821

Total interest incurred on bonds and notes payable together totaled \$1,563,757, \$1,656,294, and \$1,877,381 for fiscal years ended June 30, 2005, 2004, and 2003, 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:

- 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.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003

NOTE 7: COMPLIANCE WITH BOND COVENANTS (Continued)

- 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, 2005, reported as restricted assets on the balance sheet, are as follows:

	<u>Balance</u> <u>June 30, 2005</u>	<u>Bond</u> <u>Requirements</u>	<u>Over (Under)</u> <u>Funded</u>
Bond and Interest Sinking Fund	\$ -	\$ -	\$ -
Operation Reserve Fund	250,530	250,000	530
Bond Reserve Fund	<u>455,965</u>	<u>455,000</u>	<u>965</u>
Totals	<u>\$ 706,495</u>	<u>\$ 705,000</u>	<u>\$ 1,495</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, 2005, 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 on 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 \$86,229, \$121,022, and \$624,110 as of June 30, 2005, 2004, and 2003, respectively.

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003**

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 \$13,313,515, \$12,855,024, and \$11,739,673 for 2005, 2004, and 2003, respectively. The leases to gaming operations include contingent rentals of \$11,457,154, \$9,010,734, and \$7,895,130 for 2005, 2004, and 2003, 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 lease agreements in effect as of June 30, 2005, not including contingent rentals, consumer price index adjustments, or thruput charges:

<u>Year</u>	<u>Amount</u>
2006	\$ 3,172,500
2007	3,168,789
2008	1,119,372
2009	811,456
2010	<u>466,228</u>
Total	<u>\$ 8,818,345</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.

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. As of June 30, 2005, 2004, and 2003, the Authority's rate was 9.75% of annual covered payroll. Effective July 1, 2005, the Authority's rate increased to 10.75%. 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 ended June 30, 2005, 2004, and 2003 were \$185,843, \$187,148, and \$189,345, respectively, equal to the required contributions for each year.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003

NOTE 12: 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 expiring in October 2005. The Authority has submitted a letter of intent to renew the lease for an additional three-year term and the new lease payment amounts are under negotiation. Rent expense under this lease was \$139,124, \$135,053, and \$133,822 for the years ended June 30, 2005, 2004 and 2003, 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 provided one of these buildings to a lessee as part of the customer's lease agreement. The building was returned on April 29, 2005. Rent expense under these leases was \$7,250, \$8,750, and \$10,390 for the years ended June 30, 2005, 2004, and 2003, respectively.

Rent expense is included in the Statements of Revenues, Expenses, and Changes in Net Assets as contractual services. The minimum future lease payments on the office space lease at June 30, 2005 are as follows:

<u>Year</u>	<u>Amount</u>
2006	<u>45,685</u>
Total	<u>\$ 45,685</u>

NOTE 13: ECONOMIC DEPENDENCY

One lessee accounted for approximately 42 percent of the operating revenues in fiscal year 2005, approximately 44 percent of operating revenues in fiscal year 2004, and approximately 44 percent of operating revenues in fiscal year 2003. The two gaming operation lessees collectively accounted for approximately 55 percent of the operating revenues in fiscal year ended June 30, 2005, approximately 53 percent of the operating revenues in fiscal year ended June 30, 2004, and approximately 50 percent of the operating revenues in fiscal year 2003.

NOTE 14: COMMITMENTS AND CONTINGENCIES

Commitments

Construction in Progress

Construction in progress at June 30, 2005 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, 2005 is \$34,271,914, of which \$25,210,367 in construction costs has been incurred through June 30, 2005. Of the construction costs incurred as of June 30, 2005, the Authority remains obligated to pay \$917,918 from unrestricted cash and \$1,775,864 from restricted cash. The Authority is further obligated to pay the remaining amount of \$9,061,547 as work progresses on these construction contracts from Authority revenues and bonds, which are further described on the previous page(s).

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003**

NOTE 14: COMMITMENTS AND CONTINGENCIES (Continued)

Commitments (Continued)

Other Projects

The Authority is also committed to make repairs to the roofs of several buildings and the installation of a dust collection system. The total of the contracts is \$772,438, of which \$116,225 has been incurred through June 30, 2005. The Authority is further obligated to pay the remaining amount of \$656,213 from restricted funds as work progresses.

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, 2005, June 30, 2004 and June 30, 2003, \$227,500, \$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.

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, 2005, the future minimum maintenance payments are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$ 108,420
2007	108,420
2008	108,420
2009	108,420
2010	108,420
Thereafter	<u>144,560</u>
Total	<u>\$ 686,600</u>

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.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003

NOTE 14: COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies (Continued)

Legal Matters

The Authority has been named as a co-defendant in civil lawsuits brought about by multiple plaintiffs alleging various personal injury claims. According to legal counsel for the Authority, this litigation, though filed in December 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 15: MISSISSIPPI COAST FOREIGN TRADE ZONE, INC.

In January 1999, the U. S. Department of Commerce Foreign Trade Zone Board approved the expansion of the Greater Gulfport/Biloxi Foreign Trade Zone, Inc. to include Harrison County. Such designation allows foreign or domestic merchandise coming into the Mississippi State Port Authority to generally be considered as part of international commerce and not officially entered in United States Commerce. Therefore, the usual duties charged on goods may be deferred, reduced, avoided or eliminated.

NOTE 16: 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.

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.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005, 2004, AND 2003

NOTE 16: RISK MANAGEMENT (Continued)

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 17: SUBSEQUENT EVENTS

In June 2005, the Authority awarded a construction contract related to terminal expansion in the amount of \$1,416,750. However, the contract is under review by the Mississippi Development Authority and has not yet been approved by the Authority and the contractor has not received notice to proceed.

On July 12, 2005, the Authority signed a modification to an existing contract related to terminal expansion. The contract was increased by \$163,710 for a total contract amount of \$1,294,259.

On August 29, 2005, the Authority's buildings and port operations as well as the business operations of most of the Authority's lessees were impacted by Hurricane Katrina. The total loss incurred as a result of this storm has not been determined at this time. It is anticipated that financial assistance will become available from a variety of sources (e.g. Federal government, State government, and insurance coverage) to assist the Authority with their recovery and rebuilding process. This event is expected to affect the financial position and future earnings potential of the Authority over the next few years as the Authority works to rebuild its operations; however, the long term financial impacts resulting from the loss can not be determined at this time.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS**



August 15, 2005

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, 2005, and have issued our report thereon dated August 15, 2005. 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.

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 caused by error or fraud 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 15, 2005.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Commissioners
Mississippi State Port Authority
at Gulfport
August 15, 2005

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


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Certified Public Accountants
Gulfport, Mississippi