

**MISSISSIPPI STATE PORT AUTHORITY
AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)**

FINANCIAL STATEMENTS

JUNE 30, 2010, 2009, AND 2008



**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
LIST OF OFFICIALS
JUNE 30, 2010**

Board of Commissioners

Term

Frances Turnage	President	12/08/10
Frank T. Wilem, Jr.	Vice-President	12/09/11
Lenwood S. Sawyer, Jr.	Secretary	12/10/12
James C. Simpson, Jr.	Treasurer	12/09/13
John K. Rester	Commissioner	12/08/14

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
(AN AGENCY OF THE STATE OF MISSISSIPPI)
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JUNE 30, 2010, 2009, AND 2008

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INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

September 29, 2010

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, an agency of the State of Mississippi, as of June 30, 2010, 2009, and 2008, 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, 2010, 2009, and 2008, 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 September 29, 2010, 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 as of June 30, 2010. 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 assessing the results of our audit.

To the Board of Commissioners
Mississippi State Port Authority
at Gulfport
September 29, 2010

Our audit was conducted for the purpose of forming an opinion on financial statements that collectively comprise the Mississippi State Port Authority at Gulfport financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 through 8, 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, PLLC
Certified Public Accountants
Gulfport, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS



MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT

JOHN K. RESTER
Commissioner
LENWOOD S. SAWYER, JR.
Commissioner
JAMES C. SIMPSON, JR.
Commissioner

FRANCES TURNAGE
Commissioner
FRANK WILEM
Commissioner
DONALD R. ALLEE
Executive Director & CEO
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, 2010, 2009, and 2008. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Financial Highlights

- Total operating revenues increased \$599,964 (or 4.6%) over the prior year. Fiscal Year 2010 revenues were \$80,000 (or 0.6%) greater than Fiscal Year 2008.
- Maritime revenues increased \$1 million in Fiscal Year 2010 as compared to Fiscal Year 2009.
- The Authority's net assets increased \$16.1 million as a result of this year's operations. Last year's operations increased net assets by \$38.9 million.
- As of June 30, 2010, the Authority's operating revenues totaled \$13.6 million, and operating expenses totaled \$22.1 million, resulting in a net operating loss of \$8.5 million. This compares to a Fiscal Year 2009 net operating loss of \$380,000. Fiscal Year 2010 operating expenses include \$7.7 million of CDBG grant reimbursable expenses and \$5.3 million of depreciation and a one time expense of \$1.2 million to demolish the inner harbor pier damaged by Hurricane Katrina. In FY 2009 reimbursable grant expenditures totaled \$2.5 million and depreciation was \$4.2 million.
- The Authority continued its facility restoration during Fiscal Year 2010. With the completion of West Pier Berths 1 & 2 1300 linear feet of reconstructed berth space was created. 900 linear feet of dock will be completed at West Pier Berth 3 in the first quarter of 2011. The remaining 20 acres of the 60 acre landfill project will be complete by mid-fiscal year 2011.
- Total capital assets increased \$23.1 million (or 13.8%) compared to a \$32.4 million (or 24.1%) increase in the prior fiscal year.
- The Authority is in the midst of its Hurricane Katrina litigation and also continues to work with MEMA and FEMA to resolve Hurricane Katrina Project Worksheet issues. The Authority received \$33.2 million in FEMA funds during FY 2010. FY 2010 ended with an additional \$10.3 million due to the Port from FEMA for work previously completed.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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.

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 an escrow for a lease/purchase option. 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, 2010 with comparative amounts for June 30, 2009 and June 30, 2008 is as follows:

ASSETS			
	<u>2010</u>	<u>2009</u>	<u>2008</u>
CURRENT ASSETS			
Cash and investments	\$ 71,775,940	\$ 52,778,621	\$ 72,607,496
Accounts receivable	744,985	731,335	601,534
Other Receivables	13,530,253	46,875,643	17,741,593
Prepaid expenses	122,882	54,822	50,037
Restricted assets:			
Cash and investments	201,700	1,300	1,500
Interest receivable	-	-	-
Total current assets	<u>86,375,760</u>	<u>100,441,721</u>	<u>91,002,160</u>
NON-CURRENT ASSETS			
Capital assets	190,148,330	167,056,957	134,608,410
Other assets			
Investments	4,071,960	-	-
Restricted - Lease Deposit	450,000	450,000	-
Incentive to lessee	103,455	104,201	-
Unamortized bond issue costs	<u>140,274</u>	<u>157,451</u>	<u>17,098</u>
Total non-current assets	<u>194,914,019</u>	<u>167,768,609</u>	<u>134,625,508</u>
TOTAL ASSETS	<u>\$ 281,289,779</u>	<u>\$ 268,210,330</u>	<u>\$ 225,627,668</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Balance Sheet (Continued)

COMPARATIVE BALANCE SHEETS (Continued)			
LIABILITIES AND NET ASSETS	<u>2010</u>	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES			
Accounts payable and accruals	\$ 4,432,070	\$ 5,918,588	\$ 1,958,281
Retainages payable	1,958,904	2,120,993	957,770
Bonds payable	<u>2,325,000</u>	<u>1,360,000</u>	<u>1,870,000</u>
Total current liabilities	<u>8,715,974</u>	<u>9,399,581</u>	<u>4,786,051</u>
NON-CURRENT LIABILITIES			
Bonds payable	21,555,000	23,880,000	24,895,000
Compensated absences	177,452	162,738	145,685
Payable from restricted assets:			
Customer deposits	<u>1,700</u>	<u>1,300</u>	<u>1,500</u>
Total non-current liabilities	<u>21,734,152</u>	<u>24,044,038</u>	<u>25,042,185</u>
NET ASSETS			
Invested in capital assets, net of related debt	164,608,623	141,816,957	107,843,412
Restricted	650,000	450,000	-
Unrestricted	<u>85,581,030</u>	<u>92,499,754</u>	<u>87,956,020</u>
Total net assets	<u>250,839,653</u>	<u>234,766,711</u>	<u>195,799,432</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>281,289,779</u>	\$ <u>268,210,330</u>	\$ <u>225,627,668</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 security.

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, 2010 with comparative amounts for June 30, 2009 and 2008 is as follows:

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS			
	<u>2010</u>	<u>2009</u>	<u>2008</u>
OPERATING REVENUES			
Charges for services	\$ 4,937,211	\$ 4,034,446	\$ 4,316,270
Revenue from leases	8,707,426	9,010,228	9,249,814
Total operating revenues	<u>13,644,637</u>	<u>13,044,674</u>	<u>13,566,084</u>
OPERATING EXPENSES	<u>22,130,093</u>	<u>13,429,009</u>	<u>11,107,152</u>
INCOME FROM OPERATIONS	<u>(8,485,456)</u>	<u>(384,335)</u>	<u>2,458,932</u>
NON-OPERATING REVENUE (EXPENSES)			
Revenue from County	946,234	972,632	992,665
Investment and other income	24,487,596	36,858,522	10,531,260
Insurance proceeds	60,524	2,846,329	8,011,240
Interest and other expenses	(935,956)	(1,277,667)	(1,174,071)
Loss on disposal of assets	-	(295,668)	(6,837)
Total non-operating revenue (expenses)	<u>24,558,398</u>	<u>39,104,149</u>	<u>18,354,257</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	16,072,942	38,719,814	20,813,189
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>247,465</u>	<u>1,543,182</u>
CHANGE IN NET ASSETS	16,072,942	38,967,279	22,356,371
TOTAL NET ASSETS - BEGINNING	<u>234,766,711</u>	<u>195,799,432</u>	<u>173,443,061</u>
TOTAL NET ASSETS - ENDING	<u>\$ 250,839,653</u>	<u>\$ 234,766,711</u>	<u>\$ 195,799,432</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 2010 the Authority continued with its restoration of Port infrastructure. The Authority's capital assets increased \$23.1 million during the year. Its liabilities decreased \$3 million (or 8.95 percent) during the past fiscal year. Long term liabilities decreased by \$2.3 million (or 9.61 percent) as the Authority continues to extinguish its long-term debt. Total net assets increased \$16.1 million (or 6.85 percent). The Authority continues to pursue its insurance recovery, and to utilize Federal Emergency Management Agency and Community Development Block Grant Funds to assist in restoring Port facilities.

Analysis of the Authority's current year cash flows shows a net increase of \$11.7 million in cash from the previous year.

Other Potentially Significant Matters

Capital Asset Administration

CAPITAL ASSETS AS OF JUNE 30			
(Net of Depreciation, in Millions)			
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land	\$ 37.2	\$ 37.2	34.5
Buildings	22.9	23.4	23.9
Machinery and equipment	7.9	8.2	0.7
Land improvements	14.8	15.6	15.9
Infrastructure improvements	66.9	35.8	36.7
Construction in progress	40.4	46.8	22.8
	<u>\$ 190.1</u>	<u>\$ 167.0</u>	<u>\$ 134.5</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The Authority continues its aggressive restoration program to rebuild facilities destroyed during Hurricane Katrina. Capital outlay for fixed assets exceeded \$24.5 million during the current fiscal year. Over \$200 million is budgeted for capital outlay during the next two fiscal years. Financial assistance from a variety of sources (e.g., Federal government, State government, and insurance coverage) is available to assist the Authority in the replacement of impaired assets. To date \$136 million has been received from insurance policies and grant funds.

Note 17 to the Financial Statements provides detail of the Authority's outstanding construction commitments as of June 30, 2010.

Debt Administration

DEBT OUTSTANDING AS OF JUNE 30			
	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Obligation Bonds: (backed by the State of Mississippi)			
Series 16	\$ -	\$ -	\$ 26,765,000
Series 2009C	<u>23,880,000</u>	<u>25,240,000</u>	<u>-</u>
Bonds outstanding	<u>\$ 23,880,000</u>	<u>\$ 25,240,000</u>	<u>\$ 26,765,000</u>

The Authority continues to extinguish its debt. The current bond issue will be extinguished in September 2018.

Economic Factors and Fiscal Year Ending June 30, 2011's Budget

The Authority's management considered a variety of factors when setting the Fiscal Year 2011 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 the projected capital improvements, revenue projections, with a projected one percent increase, remain relatively flat. As our existing maritime tenants continue to face tough competition, we expect to see only a marginal increase in tonnage or revenues from them. The Authority is currently negotiating long term leases with our existing maritime tenants and aggressively pursuing new business opportunities, with special interest focused on the Panama Canal expansion and future regional free trade agreements.

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
(AN AGENCY OF THE STATE OF MISSISSIPPI)
COMPARATIVE BALANCE SHEETS
JUNE 30, 2010, 2009 AND 2008

ASSETS

	<u>2010</u>	<u>2009</u>	<u>2008</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 21,462,653	\$ 9,948,537	\$ 2,186,000
Equity in internal investment pool	738,773	737,750	737,750
Investments	49,574,514	42,092,334	69,683,746
Accrued interest receivable	160,484	130,218	641,710
Accounts receivable, net of allowance for doubtful accounts	744,985	731,335	601,534
Other receivable, insurance proceeds	-	-	4,124,621
Due from other State agencies	13,352,786	46,476,895	12,623,013
Due from other governments	16,983	268,530	352,249
Prepaid expenses	122,882	54,822	50,037
Restricted assets:			
Cash and cash equivalents	201,700	1,300	1,500
Total current assets	<u>86,375,760</u>	<u>100,441,721</u>	<u>91,002,160</u>
NON-CURRENT ASSETS			
Capital assets:			
Land	37,264,219	37,264,219	34,483,795
Buildings, net of accumulated depreciation	22,873,784	23,401,251	23,928,717
Machinery and equipment, net of accumulated depreciation	7,893,138	8,172,920	697,529
Land improvements, net of accumulated depreciation	14,773,125	15,625,006	15,948,145
Infrastructure, net of accumulated depreciation	66,941,230	35,798,466	36,719,812
Construction in progress	40,402,834	46,795,095	22,830,412
Total capital assets	<u>190,148,330</u>	<u>167,056,957</u>	<u>134,608,410</u>
Investments - non-current	4,071,960	-	-
Deferred asset	103,455	104,201	-
Unamortized bond issue costs	140,274	157,451	17,098
Restricted asset:			
Deposit	450,000	450,000	-
Total non-current assets	<u>194,914,019</u>	<u>167,768,609</u>	<u>134,625,508</u>
TOTAL ASSETS	<u>\$ 281,289,779</u>	<u>\$ 268,210,330</u>	<u>\$ 225,627,668</u>

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES			
Accounts payable	\$ 3,908,139	\$ 4,843,143	\$ 1,356,843
Retainages payable	1,958,904	2,120,993	957,770
Deferred revenue	140,554	198,057	93,856
Accrued salaries	86,120	61,288	56,322
Accrued interest payable	295,615	225,097	442,343
Current maturities of compensated absences payable	1,642	4,578	8,917
Current maturities of capitalized lease payable	-	586,415	-
Current maturities of bonds payable	<u>2,325,000</u>	<u>1,360,000</u>	<u>1,870,000</u>
Total current liabilities	<u>8,715,974</u>	<u>9,399,571</u>	<u>4,786,051</u>
NON-CURRENT LIABILITIES			
Compensated absences payable, net of current maturities	177,452	162,739	145,685
Capitalized lease payable, net of current portion	-	9	-
Bonds payable, net of current portion	21,555,000	23,880,000	24,895,000
Payable from restricted assets:			
Customer deposits	<u>1,700</u>	<u>1,300</u>	<u>1,500</u>
Total non-current liabilities	<u>21,734,152</u>	<u>24,044,048</u>	<u>25,042,185</u>
Total liabilities	<u>30,450,126</u>	<u>33,443,619</u>	<u>29,828,236</u>
NET ASSETS			
Invested in capital assets, net of related debt	164,608,623	141,816,957	107,843,412
Restricted	650,000	450,000	-
Unrestricted	<u>85,581,030</u>	<u>92,499,754</u>	<u>87,956,020</u>
Total net assets	<u>250,839,653</u>	<u>234,766,711</u>	<u>195,799,432</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 281,289,779</u>	<u>\$ 268,210,330</u>	<u>\$ 225,627,668</u>

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

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010, 2009 AND 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
OPERATING REVENUES			
Charges for services	\$ 4,937,211	\$ 4,034,446	\$ 4,316,270
Revenue from leases	8,707,426	9,010,228	9,249,814
Total operating revenues	<u>13,644,637</u>	<u>13,044,674</u>	<u>13,566,084</u>
OPERATING EXPENSES			
General and administrative	2,316,719	1,931,881	1,922,770
Contractual services	14,234,958	7,087,175	5,162,501
Commodities	300,542	186,774	280,429
Depreciation	5,277,874	4,223,177	3,741,452
Total operating expenses	<u>22,130,093</u>	<u>13,429,007</u>	<u>11,107,152</u>
INCOME (LOSS) FROM OPERATIONS	<u>(8,485,456)</u>	<u>(384,333)</u>	<u>2,458,932</u>
NON-OPERATING REVENUE (EXPENSES)			
Revenue from County	946,234	972,632	992,665
Interest and other investment income	780,475	1,559,475	3,611,050
Transfers in from other State agencies	23,707,121	35,299,047	6,920,210
Insurance proceeds	60,524	2,846,329	8,011,240
Interest expense and other fiscal charges	(935,956)	(1,277,668)	(1,174,071)
Loss on disposal of capital assets	-	(295,668)	(6,837)
Total non-operating revenue (expenses)	<u>24,558,398</u>	<u>39,104,147</u>	<u>18,354,257</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>16,072,942</u>	<u>38,719,814</u>	<u>20,813,189</u>
Capital contributions - Federal	-	-	239,368
Capital contributions - State	-	247,465	1,303,814
Total capital contributions	<u>-</u>	<u>247,465</u>	<u>1,543,182</u>
CHANGE IN NET ASSETS	16,072,942	38,967,279	22,356,371
TOTAL NET ASSETS - BEGINNING	<u>234,766,711</u>	<u>195,799,432</u>	<u>173,443,061</u>
TOTAL NET ASSETS - ENDING	<u>\$ 250,839,653</u>	<u>\$ 234,766,711</u>	<u>\$ 195,799,432</u>

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

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010, 2009 AND 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 13,574,630	\$ 12,914,673	\$ 13,188,449
Cash payments for personnel services	(2,280,110)	(1,914,200)	(1,914,385)
Cash payments to suppliers of goods and services	<u>(14,327,961)</u>	<u>(2,823,461)</u>	<u>(5,663,697)</u>
Net cash provided by (used in) operating activities	<u>(3,033,441)</u>	<u>8,177,012</u>	<u>5,610,367</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from other governments	1,197,781	939,750	2,205,019
Transfers in from other state agencies	<u>56,831,230</u>	<u>1,561,766</u>	<u>791,033</u>
Net cash provided by noncapital financing activities	<u>58,029,011</u>	<u>2,501,516</u>	<u>2,996,052</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash received from State grants	-	247,465	-
Cash payment for capital asset disposal	-	(57,000)	-
Acquisition and construction of capital assets	(29,741,941)	(36,016,393)	(29,370,751)
Insurance proceeds	60,524	6,970,950	8,886,619
Interest paid	(848,261)	(1,635,267)	(1,197,904)
Deposit on capital lease purchase	-	(450,000)	-
Principal paid on capital lease payable	(586,424)	(113,327)	-
Proceeds of refunding bonds	-	25,240,000	-
Payment for redemption of refunded bonds	-	(24,895,000)	-
Principal paid on bonds payable	<u>(1,360,000)</u>	<u>(1,870,000)</u>	<u>(1,780,000)</u>
Net cash used in capital and related financing activities	<u>(32,476,102)</u>	<u>(32,578,572)</u>	<u>(23,462,036)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	(58,758,493)	(53,054,754)	(94,875,889)
Interest received	854,564	2,167,135	3,755,102
Proceeds from maturities of investments	<u>47,100,000</u>	<u>80,550,000</u>	<u>100,694,000</u>
Net cash provided by (used in) investing activities	<u>(10,803,929)</u>	<u>29,662,381</u>	<u>9,573,213</u>
Net change in cash and cash equivalents	11,715,539	7,762,337	(5,282,404)
Cash and cash equivalents at beginning of year	<u>10,687,587</u>	<u>2,925,250</u>	<u>8,207,654</u>
Cash and cash equivalents at end of year	<u>\$ 22,403,126</u>	<u>\$ 10,687,587</u>	<u>\$ 2,925,250</u>
CLASSIFIED ON THE COMPARATIVE BALANCE SHEETS AS FOLLOWS:			
CURRENT ASSETS			
Cash and cash equivalents	\$ 21,462,653	\$ 9,948,537	\$ 2,186,000
Equity in internal investment pool	738,773	737,750	737,750
Restricted Assets:			
Cash and cash equivalents	<u>201,700</u>	<u>1,300</u>	<u>1,500</u>
Cash and cash equivalents at end of year	<u>\$ 22,403,126</u>	<u>\$ 10,687,587</u>	<u>\$ 2,925,250</u>
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:			
Purchase of capital asset with financing	<u>\$ -</u>	<u>\$ 699,751</u>	<u>\$ -</u>

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
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COMPARATIVE STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2010, 2009 AND 2008

	<u>2010</u>	<u>2009</u>	<u>2008</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Income (loss) from operations	<u>\$ (8,485,456)</u>	<u>\$ (384,333)</u>	<u>\$ 2,458,932</u>
Adjustments reconciling income (loss) from operations to net cash provided by (used in) operating activities:			
Depreciation	5,277,874	4,223,177	3,741,452
Provision for loss on accounts receivable	-	-	5,098
(Increase) decrease in assets:			
Accounts receivable	(13,650)	(129,801)	66,825
Prepaid expenses	(68,060)	(4,785)	(26,589)
Deferred asset	746	(104,201)	-
Increase (decrease) in liabilities:			
Accounts payable	275,599	4,455,273	(194,178)
Deferred revenue	(57,503)	104,201	(448,758)
Accrued salaries	24,832	4,966	7,252
Accrued compensated absences	11,777	12,715	1,133
Customer deposits	400	(200)	(800)
Total adjustments	<u>5,452,015</u>	<u>8,561,345</u>	<u>3,151,435</u>
Net cash provided by (used in) operating activities	<u><u>\$ (3,033,441)</u></u>	<u><u>\$ 8,177,012</u></u>	<u><u>\$ 5,610,367</u></u>

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

NOTES TO FINANCIAL STATEMENTS

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Port of Gulfport was conveyed by the City of Gulfport to the State of Mississippi on September 26, 1960. On February 9, 1961, the Port of Gulfport was officially renamed and the Mississippi State Port Authority at Gulfport (Authority) was created. 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 an agency 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. 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.

Restricted Assets

When both restricted and non-restricted assets are available for use, the policy is to use restricted assets first, then unrestricted assets as needed.

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008**

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 statements 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.

Equity in Internal Investment Pool

Equity in internal investment pool is cash deposited with the State Treasurer's Office and consists of pooled demand deposits that are considered cash and cash equivalents. The State Treasurer is responsible for maintaining the cash balances in accordance with State laws, and excess cash is invested in the State's cash and short-term investment pool. As of June 30, 2010, the Authority's share in the pooled investment as a state agency consists of cash and totals \$738,773.

Investments

The Authority reports investments at fair value which are readily available market quotations. Unrealized gains and losses are reported in the statements 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.

Due from Other State Agencies

Due from other state agencies represents subrecipient grant funds earned but not received as of June 30.

Due from Other Governments

Due from other governments represents grant funds and ad valorem taxes earned but not received as of June 30.

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 on the next page:

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(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

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

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 bonds are being amortized on the straight-line method over the term of the bond.

Deferred Revenue

The Authority defers revenue recognition in connection with resources that have been received, but not yet earned.

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 amount restricted for purposes related to a deposit on a capital lease purchase option and amount held in escrow for channel expansion.

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 2009 and 2008 financial statements in order for them to be consistent with the current fiscal year financial statement presentation.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

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 MDA deposits funds, on behalf of the Authority, 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, 2010, the carrying amount of the Authority's deposits (including restricted deposits) was \$2,161,265 and the bank balances totaled \$2,333,157. 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.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Deposits (continued)

As of June 30, 2010, restricted cash and cash equivalents consist of the following:

Current:	
Restricted for customer deposits	\$ 700
Restricted for dockage deposits	1,000
Restricted for other purposes	<u>200,000</u>
Total current	<u><u>\$ 201,700</u></u>

Investments

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
U.S. Government securities and agencies	<u>\$ 53,646,474</u>	<u>\$ 42,092,334</u>	<u>\$ 69,683,746</u>

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current Assets:			
Investments in U.S. Government securities and agencies	\$ 49,574,514	\$ 42,092,334	\$ 69,683,746
Non-Current Assets			
Investments in U.S. Government securities and agencies	4,071,960	-	-
Total investments	<u>\$ 53,646,474</u>	<u>\$ 42,092,334</u>	<u>\$ 69,683,746</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. The money market funds of \$20,241,861, included in cash and cash equivalents, are held by the trust department at one financial investment institution and consist of investment in a government fund mutual fund that is uninsured and uncollateralized at June 30, 2010. Those securities are not registered in the Authority's name. However, the money market funds are held in the Authority's name and are controlled solely by the Authority.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk (continued)

All investments made by the 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.

Credit Risk

Credit risk is the risk that an issuer or other counterparty will not fulfill its obligation. 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.

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

<u>Investment</u>	<u>Rating</u>	<u>Fair Value</u>		
		<u>2010</u>	<u>2009</u>	<u>2008</u>
Mutual funds	AAA	\$ 20,241,861	\$ 7,395,214	\$ 1,305,245
U.S. Government securities and agencies	AAA	\$ 53,646,474	42,092,334	69,683,746
Total		<u>\$ 73,888,335</u>	<u>\$ 49,487,548</u>	<u>\$ 70,988,991</u>

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.

The future maturities of the Authority's investments as of June 30, 2010 are as follows:

Investment Type:	Fair Value	Investment Maturities (in years)	
		<u>Less than 1</u>	<u>1-5</u>
Mutual funds	\$ 20,241,861	\$ 20,241,861	\$ -
U.S. Government securities and agencies	53,646,474	49,574,514	4,071,960
	<u>\$ 73,888,335</u>	<u>\$ 69,816,375</u>	<u>\$ 4,071,960</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.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 3: ACCOUNTS RECEIVABLE

The following is a summary of accounts receivable at June 30, 2010, 2009, and 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Accounts receivable from customers	\$ 1,792,752	\$ 1,779,102	\$ 1,649,301
Less: allowance for doubtful accounts	<u>(1,047,767)</u>	<u>(1,047,767)</u>	<u>(1,047,767)</u>
Accounts receivable, net	<u>\$ 744,985</u>	<u>\$ 731,335</u>	<u>\$ 601,534</u>

The Authority recorded no bad debt expense for the fiscal year ended June 30, 2010 and 2009. Bad debt expense for the fiscal year ended June 30, 2008 was \$5,098. Bad debt expense 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: DUE FROM OTHER STATE AGENCIES

As of June 30, due from other state agencies includes the following:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
MEMA - FEMA Hurricane Katrina Projects	\$ 10,276,671	\$ 43,262,381	\$ 12,623,013
MEMA - FEMA Hurricane Gustav Projects	172,917	218,481	-
MDA - HUD/CDBG Port restoration projects	<u>2,903,198</u>	<u>2,996,033</u>	<u>-</u>
	<u>\$ 13,352,786</u>	<u>\$ 46,476,895</u>	<u>\$ 12,623,013</u>

NOTE 5: DUE FROM OTHER GOVERNMENTS

As of June 30, due from other governments includes the following:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Harrison County Tax Collector - Ad Valorem Taxes	\$ 16,983	\$ 32,793	\$ 112,881
FEMA - Homeland Security Grant Project	<u>-</u>	<u>235,737</u>	<u>239,368</u>
	<u>\$ 16,983</u>	<u>\$ 268,530</u>	<u>\$ 352,249</u>

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 6: INSURANCE PROCEEDS

Insurance proceeds include amounts received for the Authority's buildings and port facilities damaged by Hurricane Gustav on September 1, 2008 and Hurricane Katrina on August 29, 2005. For the year ended June 30, 2010, the Authority received \$60,524 in insurance proceeds related to Hurricane Katrina. For the year ended June 30, 2009, the Authority received \$134,000 and \$6,836,950 in insurance proceeds related to Hurricane Gustav and Hurricane Katrina, respectively. For the year ended June 30, 2008, the Authority received \$8,011,240 in insurance proceeds related to Hurricane Katrina. As of June 30, 2010, 2009, and 2008, a total of \$60,524, \$2,846,329, and \$8,011,240 of insurance proceeds is recognized as non-operating revenues on the statements of revenues, expenses, and changes in net assets, respectively. The Authority has no insurance proceeds receivable as of June 30, 2010 and 2009. At June 30, 2008, \$4,124,621 is recognized as insurance receivable on the balance sheets.

NOTE 7: CAPITAL ASSETS

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

For the fiscal year ended June 30, 2010

	Balance July 1, 2009	Additions	Disposals	Transfers	Balance June 30, 2010
Land	\$ 37,264,219	\$ -	\$ -	\$ -	\$ 37,264,219
Buildings	25,193,876	-	-	-	25,193,876
Machinery and equipment	8,873,876	304,719	-	-	9,178,595
Land improvements	25,103,237	-	-	-	25,103,237
Infrastructure	69,374,304	-	-	34,456,789	103,831,093
Construction in progress	46,795,095	28,182,760	(118,232)	(34,456,789)	40,402,834
Total capital assets	<u>212,604,607</u>	<u>28,487,479</u>	<u>(118,232)</u>	<u>-</u>	<u>240,973,854</u>
Less: accumulated depreciation for:					
Buildings	(1,792,625)	(527,467)	-	-	(2,320,092)
Machinery and equipment	(700,956)	(584,501)	-	-	(1,285,457)
Land improvements	(9,478,231)	(851,881)	-	-	(10,330,112)
Infrastructure	(33,575,838)	(3,314,025)	-	-	(36,889,863)
Total accumulated depreciation	<u>(45,547,650)</u>	<u>(5,277,874)</u>	<u>-</u>	<u>-</u>	<u>(50,825,524)</u>
Net capital assets	<u>\$ 167,056,957</u>	<u>\$ 23,209,605</u>	<u>\$ (118,232)</u>	<u>\$ -</u>	<u>\$ 190,148,330</u>

Construction in progress at June 30, 2010 is primarily composed of construction costs for the sixty acre fill project, yard development, and construction costs for rehabilitating berth facilities. For the year ended June 30, 2010, there was no capitalizable interest incurred on outstanding debt during the construction period.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 7: CAPITAL ASSETS (Continued)

For the fiscal year ended June 30, 2009

	Balance July 1, 2008	Additions	Disposals	Transfers	Balance June 30, 2009
Land	\$ 34,483,795	\$ 2,780,424	\$ -	\$ -	\$ 37,264,219
Buildings	25,193,876	-	-	-	25,193,876
Machinery and equipment	2,673,829	7,953,971	(1,753,924)	-	8,873,876
Land improvements	24,581,454	-	-	521,783	25,103,237
Infrastructure	67,684,775	-	-	1,689,529	69,374,304
Construction in progress	22,830,412	26,175,995	-	(2,211,312)	46,795,095
Total capital assets	<u>177,448,141</u>	<u>36,910,390</u>	<u>(1,753,924)</u>	<u>-</u>	<u>212,604,607</u>
Less: accumulated depreciation for:					
Buildings	(1,265,159)	(527,466)	-	-	(1,792,625)
Machinery and equipment	(1,976,300)	(239,914)	1,515,258	-	(700,956)
Land improvements	(8,633,309)	(844,922)	-	-	(9,478,231)
Infrastructure	(30,964,963)	(2,610,875)	-	-	(33,575,838)
Total accumulated depreciation	<u>(42,839,731)</u>	<u>(4,223,177)</u>	<u>1,515,258</u>	<u>-</u>	<u>(45,547,650)</u>
Net capital assets	<u>\$ 134,608,410</u>	<u>\$ 32,687,213</u>	<u>\$ (238,666)</u>	<u>\$ -</u>	<u>\$ 167,056,957</u>

Construction in progress at June 30, 2009 is primarily composed of construction costs for terminal expansion, yard development, and construction costs for rehabilitating berth facilities. For the year ended June 30, 2009, there was no capitalizable interest incurred on outstanding debt during the construction period.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 7: CAPITAL ASSETS (Continued)

For the fiscal year ended June 30, 2008

	Balance July 1, 2007	Additions	Disposals	Transfers	Balance June 30, 2008
Land	\$ 7,361,810	\$ -	\$ -	\$ 27,121,985	\$ 34,483,795
Buildings	12,834,887	-	-	12,358,989	25,193,876
Machinery and equipment	2,370,450	338,868	(35,489)	-	2,673,829
Land improvements	17,824,066	-	-	6,757,388	24,581,454
Infrastructure	67,580,088	-	-	104,687	67,684,775
Construction in progress	43,327,753	26,105,493	(259,785)	(46,343,049)	22,830,412
Total capital assets	<u>151,299,054</u>	<u>26,444,361</u>	<u>(295,274)</u>	<u>-</u>	<u>177,448,141</u>
Less: accumulated depreciation for:					
Buildings	(969,145)	(296,014)	-	-	(1,265,159)
Machinery and equipment	(1,933,720)	(71,232)	28,652	-	(1,976,300)
Land improvements	(7,825,657)	(807,652)	-	-	(8,633,309)
Infrastructure	<u>(28,398,409)</u>	<u>(2,566,554)</u>	<u>-</u>	<u>-</u>	<u>(30,964,963)</u>
Total accumulated depreciation	<u>(39,126,931)</u>	<u>(3,741,452)</u>	<u>28,652</u>	<u>-</u>	<u>(42,839,731)</u>
Net capital assets	<u>\$ 112,172,123</u>	<u>\$ 22,702,909</u>	<u>\$ (266,622)</u>	<u>\$ -</u>	<u>\$ 134,608,410</u>

Construction in progress at June 30, 2008 is primarily composed of construction costs for terminal expansion, capital restoration of hurricane damage, yard development, and construction costs for rehabilitating berth facilities. For the year ended June 30, 2008, \$167,747 of interest incurred on outstanding debt during the construction period was capitalized.

NOTE 8: DEFERRED REVENUE

As of June 30, deferred revenue includes the following:

	2010	2009	2008
MEMA-FEMA	\$ 26,043	\$ 55,398	\$ 55,398
Dupont	93,750	38,458	38,458
Chiquita - lease incentive	20,761	104,201	-
	<u>\$ 140,554</u>	<u>\$ 198,057</u>	<u>\$ 93,856</u>

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 8: DEFERRED REVENUE (Continued)

Chiquita – Lease Incentive

On October 1, 2008, the Authority entered into a lease agreement with a Lessee. Under the agreement, the Authority extended vessel credits to the Lessee until construction of the berth used by Lessee could be completed. Upon completion of the berth, the Lessee will utilize the credits earned over the subsequent twelve month period and the total lease incentive is to be amortized over the remaining life of the lease. Completion of the berth occurred at the end of August 2009 and amortization of the lease incentive and recognition of vessel credits began on September 1, 2009. As of June 30, 2010, \$21,113 has been amortized with a remaining balance of \$103,455 recognized as a deferred asset on the balance sheet. As of June 30, 2010, \$103,807 has been recognized in credits by the Lessee with a remaining balance of \$20,761 included in deferred revenue on the balance sheet.

NOTE 9: CAPITALIZED LEASE

In May 2009, the Authority entered into a land lease on approximately 33 acres in Gulfport, Mississippi. The original amount of the lease is \$699,751 and it has a bargain purchase option. Payments are \$60,500 for 12 months and then continue with annual payments of \$1 for nine years. The lease matures on June 1, 2018. The leased asset is valued at \$699,751 and is included in land on the 2010 and 2009 balance sheets.

See additional information with regard to environmental contingency associated with the lease in Note 17.

NOTE 10: BONDS PAYABLE

The Authority is responsible for the repayment of specific General Obligation Bonds of the State of Mississippi relative to Authority capital projects. The 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 debt of the Authority.

An analysis of bond activity is as follows:

For the fiscal year ended June 30, 2010

<u>Series</u>	<u>Issue Amount</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance at July 1, 2009</u>	<u>Principal Payments</u>	<u>Balance at June 30, 2010</u>
2009C	\$ 25,240,000	04/02/09	09/01/18	1.44-4.20%	\$ 25,240,000	\$ (1,360,000)	\$ 23,880,000
Less: current maturities included in current liabilities					(1,360,000)		(2,325,000)
Bonds payable, net of current portion					\$ 23,880,000		\$ 21,555,000

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 10: BONDS PAYABLE (Continued)

For the fiscal year ended June 30, 2009

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at July 1, 2008	Principal Payments	Balance at June 30, 2009
16	\$ 40,000,000	09/01/98	09/01/18	4.00-5.50%	\$ 26,765,000	\$ (26,765,000)	\$ -
2009C	\$ 25,240,000	04/02/09	09/01/18	1.44-4.20%	-	-	25,240,000
					26,765,000	\$ (26,765,000)	25,240,000
Less: current maturities included in current liabilities					(1,870,000)		(1,360,000)
Bonds payable, net of current portion					\$ 24,895,000		\$ 23,880,000

For the fiscal year ended June 30, 2008

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at July 1, 2007	Principal Payments	Balance at June 30, 2008
16	\$ 40,000,000	09/01/98	09/01/18	4.00-5.50%	\$ 28,545,000	\$ (1,780,000)	\$ 26,765,000
Less: current maturities included in current liabilities					(1,780,000)		(1,870,000)
Bonds payable, net of current portion					\$ 26,765,000		\$ 24,895,000

The Authority's future principal and interest requirements related to the bonds payable at June 30, 2010 are as follows:

Year(s)	Principal	Interest	Total
2011	\$ 2,325,000	\$ 862,084	\$ 3,187,084
2012	2,380,000	804,599	3,184,599
2013	2,445,000	734,342	3,179,342
2014	2,525,000	652,498	3,177,498
2015	2,615,000	558,368	3,173,368
2016-2018	11,590,000	1,079,238	12,669,238
	\$23,880,000	\$4,691,129	\$28,571,129

Interest incurred on bonds payable totaled \$889,102, \$1,068,644, and \$1,339,786 for fiscal years ended June 30, 2010, 2009, and 2008, respectively.

On April 2, 2009, the State of Mississippi issued Taxable General Obligation Port Improvement Refunding Bonds, Series 2009C. The bonds, with interest rates of 1.44% to 4.20%, were issued to refund the outstanding State of Mississippi General Obligation Port Improvement Bonds, Series 16, totaling \$24,895,000, with interest rates of 4.00% to 5.50%. On April 24, 2009, the net proceeds from Series 2009C of \$25,078,255 were used to redeem the Series 16 bonds, scheduled to mature on September 1, 2018, and the liability for these bonds has been removed from the Authority's balance sheet.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 10: BONDS PAYABLE (Continued)

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$198,670. This difference, reported in the accompanying fiscal year ended June 30, 2009 financial statements as interest expense, is not recorded materially different from that required by the Governmental Accounting Standards Board which calls for amortizing the deferred loss on a bond refunding over the remaining term of the bonds, which in this case is ten years. The Authority completed the current refunding to reduce its total debt service payments over the next nine years by \$878,912 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$869,000.

NOTE 11: COMPENSATED ABSENCES

Changes in compensated absences are as follows for the years ended June 30:

	Beginning Balance	Increases/ Decreases	Ending Balance	Due within 12 months
2010	<u>\$ 167,317</u>	<u>\$ 11,777</u>	<u>\$ 179,094</u>	<u>\$ 1,642</u>
2009	<u>\$ 154,602</u>	<u>\$ 12,715</u>	<u>\$ 167,317</u>	<u>\$ 4,578</u>
2008	<u>\$ 153,469</u>	<u>\$ 1,133</u>	<u>\$ 154,602</u>	<u>\$ 8,917</u>

NOTE 12: 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 statements of revenues, expenses, and changes in net assets. There were no capital contributions acquired through such resources for the fiscal year ended June 30, 2010. Capital acquisitions totaled \$247,465 and \$1,543,182, for the fiscal years ended June 30, 2009 and 2008, respectively.

NOTE 13: 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 \$8,707,426, \$9,010,228, and \$9,249,814 for 2010, 2009, and 2008, respectively. The leases to gaming operations include contingent rentals of \$5,999,764, \$6,364,908, and \$6,751,967 for 2010, 2009, and 2008, respectively. These contingent rentals are based on gross revenues of the 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.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 13: LEASING ARRANGEMENTS (Continued)

The following is a schedule of future minimum rentals through the end of the lease agreements in effect as of June 30, 2010, not including contingent rentals, consumer price index adjustments, or thruput charges:

<u>Year</u>	<u>Amount</u>
2011	\$ 2,768,442
2012	2,073,481
2013	232,719
2014	9,697
Total	<u>\$ 5,084,339</u>

NOTE 14: 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.

Other Post Employment Benefits

Retirees and beneficiaries have the option of maintaining health and other coverage at their own expense; the State incurs no expense for postretirement health benefits. However, since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the State has a postemployment healthcare benefit reportable under GASB Section P050 as a single employer defined benefit healthcare plan. Effective July 1, 2007 the State implemented GASB Section P050 prospectively which requires reporting on an accrual basis the liability associated with other postemployment benefits. The State does not issue a publicly available financial report on the Plan. However, the required reporting is included in the State's financial statements disclosures available on the State of Mississippi's website at www.dfa.state.ms.us.

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. Effective July 1, 2010, the PERS member contribution rate increases to 9%. For the periods ending June 30, 2010, 2009, and 2008, the Authority's contribution rates were 12%, 11.85%, and 11.30% of annual covered payroll, respectively. 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, 2010, 2009, and 2008 were \$215,674, \$177,043, and \$170,377, respectively, equal to the required contributions for each year.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 15: LEASES

Office Space

In May 2007, the Authority entered into a lease agreement for office space at One Hancock Plaza in Gulfport, Mississippi. The office space lease is classified as an operating lease. The lease has an initial period of seven years with one additional renewal period of five years. Annual rent under this lease agreement is \$164,509. The terms of the lease agreement state that the first two months of payments are waived in consideration of costs associated with moving. Rent expense for the year ended June 30, 2010, 2009 and 2008 total \$164,509, \$164,509, and \$102,361, respectively. Rent expenses are included in the statements of revenues, expenses, and changes in net assets as contractual services.

Office Space

In August 2009, the Authority entered into a lease agreement for office space at One Hancock Plaza in Gulfport, Mississippi. The office space lease is classified as an operating lease. The lease has an initial period of nineteen months with an option for renewal for a period of one year. Monthly rent under this lease agreement is \$3,681. Rent expense for the year ended June 30, 2010 total \$36,810. Rent expenses are included in the statements of revenues, expenses, and changes in net assets as contractual services.

Modular Office Building 1

In August 2009, the Authority entered into a renewal lease agreement for a modular office building. The lease is classified as an operating lease. The lease term is three years. Monthly rent under this lease agreement is \$1,550. Rent expense for the years ended June 30, 2010, 2009, and 2008 total \$18,600, \$18,600, and \$18,600, respectively.

Modular Office Building 2

In January 2008, the Authority entered into a lease agreement for a modular office building. The lease is classified as an operating lease. The lease term is three years. Monthly rent under this lease agreement is \$799. Rent expense for the years ended June 30, 2010, 2009, and 2008 total \$9,588, \$9,588, and \$4,794, respectively. Rent expenses are included in the statements of revenues, expenses, and changes in net assets as contractual services.

Modular Office Building 3

In October 2008, the Authority entered into a lease agreement for a modular office building. The lease is classified as an operating lease. The lease term is two years. Monthly rent under this lease agreement is \$1,550. Rent expense for the years ended June 30, 2010, and 2009 total \$18,600, and \$13,950, respectively. Rent expenses are included in the statements of revenues, expenses, and changes in net assets as contractual services.

Minimum Future Lease Payments

The minimum future lease payments on the above leases at June 30, 2010 are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 222,001
2012	183,109
2013	166,059
2014	164,509
Total	<u>\$ 735,678</u>

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008

NOTE 16: ECONOMIC DEPENDENCY

One gaming operations lessee accounted for approximately 55 percent of the operating revenues in fiscal years ended June 30, 2010, and 60 percent of the operating revenues in fiscal years ended June 30, 2009 and 2008.

NOTE 17: COMMITMENTS AND CONTINGENCIES

Commitments

Construction in Progress

Construction in progress at June 30, 2010 is primarily composed of construction costs for terminal expansion, yard expansion, and construction costs for rehabilitating berth facilities. The total amount of the construction contracts in progress as of June 30, 2010 is \$52,386,222, of which \$40,402,834 in construction costs has been incurred through June 30, 2010. Of the construction costs incurred as of June 30, 2010 the Authority remains obligated to pay \$3,926,320 from unrestricted cash. The Authority is further obligated to pay the remaining amount of \$11,983,389 as work progresses on these construction contracts from Authority revenues.

Contingencies

Regulatory Environment

The Authority's future restoration 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.

Environmental

The Authority has entered into a capital lease purchase of a parcel of land, approximately 33 acres, located in Gulfport, Mississippi, known as the former Gulfport Fertilizer Site, hereafter referred to as the "Site." The Site is contaminated with arsenic and lead levels in excess of the unrestricted Target Remediation Goals (TRGs) as established by the Mississippi Department of Environmental Quality (MDEQ), and, therefore, remediation of the Site is necessary. The MDEQ has mandated certain action be taken with respect to the adverse environmental conditions and the Seller, has proposed to MDEQ an interim corrective action plan. The Authority is aware of the plan. The Seller will remain responsible for working with MDEQ and for the implementation of the long term plan for the containment of any pollutants which may exist on the property. If MDEQ requires the Site to be capped with compacted clay or other capping material, the Authority agrees to pay up to \$450,000 to the Seller for this expense upon execution of the purchase option. The Authority has deposited this amount into a separate account with the Seller, for the sole purpose of fulfilling this obligation. The contingency is included in restricted assets - deposit on the balance sheet and has a balance of \$450,000 at June 30, 2010. See additional information in Note 9.

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008**

NOTE 17: COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies (continued)

Gulfport Harbor Ship and Bar Channel

On December 1, 2009 the Authority entered into an agreement with the Department of the Army (the Government) to construct the Gulfport Harbor Ship and Bar Channel. The agreement calls for the Authority to provide payment for certain expenses by check, electronic funds transfer, or by the Government verifying such funds have been deposited into an escrow account. The funds are to be used for payment of the Authority's portion of total costs of construction of the general navigation features. In January 2010 the Government determined the Authority's share to be \$200,000. The Authority deposited said amount into an escrow account with Hancock Bank, trust agent. The Government will withdraw funds as needed to cover the Authority's portion as the project is completed. Upon project completion, any funds remaining in the account along with accrued interest will be returned to the Authority. The contingency is included in current restricted assets - cash and cash equivalents on the 2010 balance sheet and has a balance at June 30 of \$200,000.

NOTE 18: 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 at Gulfport 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 19: 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 reductions in insurance coverage.

Self-Insurance

Tort Claims

The Authority is 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
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010, 2009, AND 2008**

NOTE 19: RISK MANAGEMENT (Continued)

Unemployment Insurance

The Authority is a member and participant in the Unemployment Insurance Fund under the administration of the Mississippi 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 Department of Employment Security 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 20: SUBSEQUENT EVENT

The Authority has evaluated events occurring subsequent to year end through September 29, 2010, which is the date the statements were available to be issued. The following events, that are required to be recognized or disclosed, have been identified by the Authority for this time period:

Construction Contracts

Subsequent to year end, the Authority entered into approximately \$1,800,918 in construction related contracts and engineering change orders related primarily to the Port restoration projects that will be funded through federal disaster recovery grants.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



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

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

September 29, 2010

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, an agency of the State of Mississippi, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 29, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mississippi State Port Authority at Gulfport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mississippi State Port Authority at Gulfport's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Commissioners
Mississippi State Port Authority at Gulfport
September 29, 2010

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*.

This report is intended solely for the information and use of management, the Board of Commissioners and others within the Authority, the State of Mississippi, and federal awarding agencies and pass-through entities, 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



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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

September 29, 2010

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

Compliance

We have audited Mississippi State Port Authority at Gulfport's, an agency of the State of Mississippi, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of Mississippi State Port Authority at Gulfport's major federal programs for the year ended June 30, 2010. The Mississippi State Port Authority at Gulfport's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements referred to above is the responsibility of the Mississippi State Port Authority at Gulfport's management. Our responsibility is to express an opinion on the Mississippi State Port Authority at Gulfport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mississippi State Port Authority at Gulfport's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Mississippi State Port Authority at Gulfport's compliance with those requirements.

In our opinion, the Mississippi State Port Authority at Gulfport complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.

Internal Control Over Compliance

Management of the Mississippi State Port Authority at Gulfport is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

Internal Control Over Compliance (Continued)

In planning and performing our audit, we considered the Mississippi State Port Authority at Gulfport's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mississippi State Port Authority at Gulfport's internal control over compliance.

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

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

Mississippi State Port Authority at Gulfport's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Mississippi State Port Authority at Gulfport's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the Board of Commissioners and others within the Authority, the State of Mississippi, and federal awarding agencies and pass-through entities, 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

**MISSISSIPPI STATE PORT AUTHORITY
(AN AGENCY OF THE STATE OF MISSISSIPPI)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Identifying Number	Federal Expenditures
U.S. Department of Homeland Security			
Passed through the Mississippi Emergency Management Agency (MEMA):			
Disaster Public Assistance Grant	97.036		
Hurricane Katrina		PW6640	\$ 884
		PW7126	55,398
		PW8418	107,743
		PW8606	228,134
		PW7811	2,772,935
		PW8812	1,906,183
		PW9378	314,664
		PW9433	13,635
		PW9673	3,124,655
		PW11181	62,654
			<u>8,586,885</u>
Hurricane Gustav		PW333	6,592
		PW432	16,067
		PW445	1,312
			<u>23,971</u>
<i>Total U.S. Department of Homeland Security</i>			<u>8,610,856</u>
U.S. Department of Housing and Urban Development			
Passed through the Mississippi Development Authority (MDA):			
Community Development Block Grant			
Disaster Recovery	14.228	R115-06-02	22,829,664
Community Development Block Grant			
Disaster Recovery	14.228	R115-06-01	609,620
<i>Total U.S. Department of Housing and Urban Development</i>			<u>23,439,284</u>
Total Expenditures of Federal Awards			<u><u>\$ 32,050,140</u></u>

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is included in the federal grant activity of the Mississippi State Port Authority at Gulfport and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2- RECONCILIATION TO GRANT REVENUE

The following reconciles the total expenditures of federal awards to grant revenue recognized in the statement of revenues, expenses, and changes in net assets for the year ended June 30, 2010:

Total expenditures of federal awards	\$ 32,050,140
Overstatement of federal expenditures on	
PW6558 at June 30, 2008	(78,214)
PW8812 at June 30, 2009	(3,110,820)
PW7811 at June 30, 2009	(87,224)
PW9904 at June 30, 2008	(5,066,761)
Total federal revenues	<u>\$ 23,707,121</u>
 Non-operating revenues (expenses)	
Transfers in from other State agencies	<u>\$ 23,707,121</u>

Federal grant revenues are reported in the statement of revenues, expenses, and changes in net assets for the year ending June 30, 2010 as transfers in from other State agencies.

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	Unqualified
Internal Control over financial reporting:	
Material Weaknesses identified?	No
Significant Deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control Over Major Programs:	
Material Weaknesses identified?	No
Significant Deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors’ report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section_510(a) of Circular A-133?	Yes

Programs tested as major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
97.036	Disaster Public Assistance Grant
14.228	Community Development Block Grant

Dollar threshold used to distinguish between type A and B Programs	*
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*The Mississippi State Port Authority at Gulfport is an agency of the State of Mississippi. Major program determination was made by the State of Mississippi.

Auditee qualified as low-risk auditee?	Yes
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**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Section II – Financial Statement Findings

None noted

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Section III – Federal Award Findings and Questioned Costs

2010-1 Finding

*Program: U.S. Department of Housing and Urban Development; Community Development Block Grant
Disaster Recovery; CFDA #14.228; R115-06-02*

Condition

Certified payrolls were not submitted weekly by the construction contractor.

Criteria or Specific Requirement

Department of Labor (DOL) regulations 29 CFR Sections 5.5 and 5.6 require that the contractor and subcontractor submit certified payrolls to the subgrantee weekly.

Effect

The contractor or subcontractor could have paid workers less than the required minimum wage rate.

Questioned Costs

There are no questioned costs associated with the finding.

Cause

In September 2009, a Disaster Recovery Division (DRD) (a/k/a Division of Port Restoration) was established and staffed with a Director and a three person staff. The DRD assumed all responsibilities for HUD/CDBG Disaster Recovery Grant compliance requirements. In April 2010, a contract was entered into with a construction management company to oversee the Authority's port restoration project that included the compliance requirement to obtain and review weekly certified payroll from contractors and subcontractors on this project. However, pursuant to the grant agreement, the Authority is the subgrantee and is responsible for ensuring that the construction management company performs such duties to ensure grant compliance requirements are met. Prior to the April contract, certified payrolls were obtained weekly by the Authority's contracted engineering consulting firm through an ongoing contract for engineering services contract. Per review of certified payroll received, weekly reports were properly received and reviewed prior to the newly executed construction management contract in April 2010. Subsequent to the April 2010 executed contract, certified payrolls were obtained and reviewed monthly only by the construction management company, with the construction contractors monthly pay applications, rather than weekly as required.

Recommendation

We recommend that the construction manager responsible for obtaining the certified payrolls be reminded of the requirement to obtain certified payrolls on a weekly basis and that the Authority establish procedures to ensure that construction manager adheres to all grant requirements.

Views of Responsible Officials and Planned Corrective Actions

The Authority concurs with this finding and has provided a response in the Corrective Action Plan.



MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT

JOHN K. RESTER
Commissioner
LENWOOD S. SAWYER, JR.
Commissioner
JAMES C. SIMPSON, JR.
Commissioner

FRANCES TURNAGE
Commissioner
FRANK WILEM
Commissioner
DONALD R. ALLEE
Executive Director & CEO
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CORRECTIVE ACTION PLAN FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SINGLE AUDIT FOR FISCAL YEAR ENDING JUNE 30, 2010

2010-1 Finding

Certified payrolls were not submitted weekly by the construction contractor.

Management Comments and Corrective Action Plan

Appropriate procedures were in place and were being adhered to for certifying contractor and subcontractor payrolls on a weekly basis prior to April 2010. Between the advent of employing additional Department of Restoration staff and the engagement of a new firm for Construction Management, a variance in adherence to these procedures occurred. Upon notification of the variance, management immediately mandated that the original procedures be reinstated. In addition, certified payrolls were no longer allowed to be attached to and included with monthly pay applications. All certified payrolls are being submitted to the Construction Manager on a weekly basis and will be maintained in files in the possession of the Construction Manager.

The Director of the Department of Restoration is requiring the Program Manager to follow up weekly to be sure the Construction Manager is following the required procedures. Physical inspection of the Certified Payroll files is being conducted no less than monthly by both the Department of Restoration and the Authority's Program Manager.