

**MISSISSIPPI STATE PORT AUTHORITY  
AT GULFPORT  
(AN AGENCY OF THE STATE OF MISSISSIPPI)  
FINANCIAL STATEMENTS  
JUNE 30, 2013, 2012, AND 2011**



**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT**  
**(AN AGENCY OF THE STATE OF MISSISSIPPI)**  
**LIST OF OFFICIALS**  
**JUNE 30, 2013**

Board of Commissioners

Term

James C. Simpson, Jr.	President	12/2013
John K. Rester	Vice-President	12/2014
Jack Norris	Secretary	12/2015
E. J. Roberts	Treasurer	12/2016
Robert J. Knesal	Commissioner	12/2017

Executive Director and Chief Executive Officer

Jonathan T. Daniels

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, 2013, 2012, AND 2011**

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## **INDEPENDENT AUDITORS' REPORT**



## INDEPENDENT AUDITORS' REPORT

September 23, 2013

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

### Report on the Financial Statements

We have audited the accompanying comparative financial statements of the Mississippi State Port Authority at Gulfport, an agency of the State of Mississippi, as of and for the years ended June 30, 2013, 2012, and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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 from material misstatement.

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

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

To the Board of Commissioners  
Mississippi State Port Authority  
at Gulfport  
September 23, 2013

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Mississippi State Port Authority at Gulfport, an agency of the State of Mississippi, as of June 30, 2013, 2012, and 2011, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Mississippi State Port Authority at Gulfport's basic financial statements. The introductory list of officials is presented for purposes of additional analysis and is not a required part of the basic financial statements. The 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 also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory list of officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To the Board of Commissioners  
Mississippi State Port Authority  
at Gulfport  
September 23, 2013

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2013, on our consideration of the Mississippi State Port Authority at Gulfport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mississippi State Port Authority's internal control over financial reporting and compliance.

  
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  
ROBERT J. KNESAL  
Commissioner  
JAMES C. SIMPSON, JR.  
Commissioner

JACK NORRIS  
Commissioner  
E.J. ROBERTS  
Commissioner  
JONATHAN DANIELS  
Executive Director / CEO  
[www.shipmspa.com](http://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, 2013, 2012, and 2011. 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 \$58.7 million as a result of this year's operations. Last year's operations increased net assets by \$3.4 million.
- Total operating revenues for FY 2013 were flat when compared to the prior year two years. Fiscal Year 2013 Operating Revenues were \$14.1 million and were \$14.2 million for Fiscal Year 2012.
- Maritime revenues were also flat in Fiscal Year 2013. 2013 maritime revenues were \$6.5 million compared to \$6.6 million in Fiscal Year 2012.
- As of June 30, 2013, the Authority's operating expenses totaled \$27.7 million, resulting in a net operating loss of \$13.6 million. This compares to a Fiscal Year 2012 net operating loss of \$36.1 million. Fiscal Year 2013 operating expenses included \$13.4 million of CDBG grant reimbursable expenses. In FY 2012 reimbursable grant operating expenditures totaled \$36.2 million.
- Depreciation for Fiscal Year 2013 remained the same as for Fiscal Year 2012 (\$6 million).
- The Authority continued its facility restoration during Fiscal Year 2013. The two Katrina FEMA funded tenant office and M&R facilities were completed in the past year, as well as the Gulfport to Hattiesburg rail road bridge upgrade project. Bidding and construction of Department of Homeland Security funded West Pier Guard gate was another major project this year.
- The Authority entered into a 30 year long term lease with an existing Port tenant that enabled the Port to begin designing and preparing to construct a major capital improvement project estimated to be \$80 million. A \$54 million CDBG funded wharf upgrade and rail enhancement project was also started.
- The Authority continued to complete and close out Project Worksheets from Hurricanes Katrina and Gustav. 32 of 77 Project Worksheets have been closed to date. The Authority received \$1.7 million in FEMA funds during Fiscal Year 2013 compared to \$55,000 during FY 2012. FY 2013 ended with an additional \$7.7 million due to the Port from FEMA for work previously completed.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### 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.

### 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, 2013 with comparative amounts for June 30, 2012, 2011 and June 30, 2010 is as follows:

<b>ASSETS</b>				
	<u><b>2013</b></u>	<u><b>2012</b></u>	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>CURRENT ASSETS</b>				
Cash and investments	\$ 66,693,997	\$ 31,935,292	\$ 86,837,291	\$ 71,775,940
Accounts receivable	757,951	703,193	704,617	744,985
Other Receivables	20,495,045	23,059,166	16,704,149	13,530,253
Prepaid expenses	172,177	118,442	73,658	122,882
Restricted assets:				
Cash and investments	<u>900</u>	<u>900</u>	<u>200,700</u>	<u>201,700</u>
Total current assets	<u>88,120,070</u>	<u>55,816,993</u>	<u>104,520,415</u>	<u>86,375,760</u>
<b>NON-CURRENT ASSETS</b>				
Capital assets	253,598,975	199,448,558	198,215,591	190,148,330
Other assets				
Investments	24,937,700	57,441,549	3,004,890	4,071,960
Restricted - Lease Deposit	450,000	450,000	450,000	450,000
Incentive to lessee	-	52,783	78,119	103,455
Unamortized bond issue costs	<u>-</u>	<u>105,921</u>	<u>123,098</u>	<u>140,274</u>
Total non-current assets	<u>278,986,675</u>	<u>257,498,811</u>	<u>201,871,698</u>	<u>194,914,019</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 367,106,745</b></u>	<u><b>\$ 313,315,804</b></u>	<u><b>\$ 306,392,113</b></u>	<u><b>\$ 281,289,779</b></u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### *Balance Sheet (Continued)*

COMPARATIVE BALANCE SHEETS (Continued)				
LIABILITIES AND NET ASSETS	2013	2012	2011	2010
<b>CURRENT LIABILITIES</b>				
Accounts payable and accruals	\$ 10,485,585	\$ 13,994,508	\$ 8,758,274	\$ 4,432,070
Retainages payable	2,345,355	1,308,329	626,823	1,958,904
Bonds payable	2,525,000	2,445,000	2,380,000	2,325,000
Total current liabilities	15,355,940	17,747,837	11,765,097	8,715,974
<b>NON-CURRENT LIABILITIES</b>				
Bonds payable	14,205,000	16,730,000	19,175,000	21,555,000
Compensated absences	206,197	198,756	190,278	177,452
Payable from restricted assets:				
Customer deposits	900	900	700	1,700
Total non-current liabilities	14,412,097	16,929,656	19,365,978	21,734,152
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	236,868,970	180,273,555	177,395,062	166,268,324
Restricted	450,000	450,000	650,000	650,000
Unrestricted	100,019,738	97,914,756	97,215,976	83,921,329
Total net assets	337,338,708	278,638,311	275,261,038	250,839,653
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 367,106,745</b>	<b>\$ 313,315,804</b>	<b>\$ 306,392,113</b>	<b>\$ 281,289,779</b>

### *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, 2013 with comparative amounts for June 30, 2012, 2011 and 2010 is as follows:

<b>COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 5,147,917	\$ 5,263,008	\$ 5,423,214	\$ 4,937,211
Revenue from leases	8,944,567	8,926,761	8,911,646	8,707,426
Total operating revenues	<u>14,092,484</u>	<u>14,189,769</u>	<u>14,334,860</u>	<u>13,644,637</u>
<b>OPERATING EXPENSES</b>	<u>27,701,535</u>	<u>50,323,324</u>	<u>30,036,592</u>	<u>22,130,093</u>
<b>INCOME FROM OPERATIONS</b>	<u>(13,609,051)</u>	<u>(36,133,555)</u>	<u>(15,701,732)</u>	<u>(8,485,456)</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>				
Revenue from County	958,260	950,065	972,846	946,234
Investment and other income	72,157,637	39,360,797	27,505,547	24,487,596
Insurance proceeds	-	-	12,500,000	60,524
Interest and other expenses	(815,243)	(799,958)	(864,872)	(935,956)
Loss on disposal of assets	8,794	(76)	9,596	-
Total non-operating revenue (expenses)	<u>72,309,448</u>	<u>39,510,828</u>	<u>40,123,117</u>	<u>24,558,398</u>
<b>CHANGE IN NET ASSETS</b>	58,700,397	3,377,273	24,421,385	16,072,942
<b>TOTAL NET ASSETS - BEGINNING</b>	<u>278,638,311</u>	<u>275,261,038</u>	<u>250,839,653</u>	<u>234,766,711</u>
<b>TOTAL NET ASSETS - ENDING</b>	<u>\$ 337,338,708</u>	<u>\$ 278,638,311</u>	<u>\$ 275,261,038</u>	<u>\$ 250,839,653</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.

Expenditures on capital assets in Fiscal Year 2013 were \$61 million. Projects completed during the year were a tenant office and maintenance & repair shop, a second tenant maintenance & repair and tire shop. The 84 acre fill and fourteen foot elevation project was 98 percent complete at year end. The rail upgrade between Gulfport and Hattiesburg was also completed. Infrastructure design for the West Pier and the bulk terminal upgrade was started. A Memorandum of Understanding was entered into for a potential tenant for West Pier Terminal 4.

Analysis of the Authority's current year cash flows shows a net decrease of \$14.7 million in cash from the previous year. This compares to a \$6.5 million decrease in cash flows from Fiscal Year 2012. Cash flow at the end of 2013 as compared to 2011 shows an increase of \$1.5 million. The primary utilization of cash during Fiscal Year 2013 was for grant reimbursable construction projects.

### **Other Potentially Significant Matters**

#### *Capital Asset Administration*

<b>CAPITAL ASSETS AS OF JUNE 30</b>				
<b>(Net of Depreciation, in Millions)</b>				
	<u><b>2013</b></u>	<u><b>2012</b></u>	<u><b>2011</b></u>	<u><b>2010</b></u>
Land	\$ 66.0	\$ 66.0	\$ 66.0	37.2
Buildings	27.5	21.8	22.3	22.9
Machinery and equipment	6.2	6.7	7.3	7.9
Land improvements	16.4	17.6	16.2	14.8
Infrastructure improvements	76.0	80.0	82.6	66.9
Construction in progress	61.5	7.3	3.8	40.4
	<u>\$ 253.6</u>	<u>\$ 199.4</u>	<u>\$ 198.2</u>	<u>\$ 190.1</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The Authority continues to maintain and expand its capital assets. Over \$300 million is budgeted for capital outlay during the next two fiscal years. Financial assistance from a variety of sources (e.g., Federal and State government) is available to assist the Authority with this program.

Note 18 to the Financial Statements provides detail of the Authority's outstanding construction commitments as of June 30, 2013.

### *Debt Administration*

DEBT OUTSTANDING AS OF JUNE 30				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
General Obligation Bonds: (backed by the State of Mississippi)				
Series 2009C	\$ 16,730,000	\$ 19,175,000	\$ 21,555,000	\$ 23,880,000

Debt service payments continue with final payment of the current bond issue scheduled for September 2018.

### *Economic Factors and Fiscal Year Ending June 30, 2014's Budget*

The Authority's management considered a variety of factors when setting the Fiscal Year 2014 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 break-bulk and project cargoes.

### *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, 2013, 2012 AND 2011**

**ASSETS**

	<u>2013</u>	<u>2012</u>	<u>2011</u> (As restated)
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 8,513,692	\$ 23,195,732	\$ 29,455,941
Equity in internal investment pool	737,750	738,458	750,099
Investments	57,442,555	8,001,102	56,631,251
Accrued interest receivable	64,337	63,286	121,411
Accounts receivable, net of allowance for doubtful accounts	757,951	703,193	704,617
Due from other State agencies	20,386,261	22,052,600	10,204,176
Due from other governments	44,447	943,280	6,378,562
Prepaid expenses	172,177	118,442	73,658
Restricted assets:			
Cash and cash equivalents	900	900	200,700
	<u>88,120,070</u>	<u>55,816,993</u>	<u>104,520,415</u>
Total current assets			
<b>NON-CURRENT ASSETS</b>			
Capital assets:			
Land	65,970,082	65,970,082	65,970,082
Buildings, net of accumulated depreciation	27,506,315	21,818,851	22,346,318
Machinery and equipment, net of accumulated depreciation	6,231,789	6,736,731	7,313,697
Land improvements, net of accumulated depreciation	16,376,994	17,614,538	16,218,183
Infrastructure, net of accumulated depreciation	76,027,113	79,970,926	82,561,702
Construction in progress	61,486,682	7,337,430	3,805,609
	<u>253,598,975</u>	<u>199,448,558</u>	<u>198,215,591</u>
Total capital assets			
Investments - non-current	24,937,700	57,441,549	3,004,890
Deferred asset	-	52,783	78,119
Unamortized bond issue costs	-	105,921	123,098
Restricted asset:			
Deposit	450,000	450,000	450,000
	<u>278,986,675</u>	<u>257,498,811</u>	<u>201,871,698</u>
Total non-current assets			
<b>TOTAL ASSETS</b>	<u>\$ 367,106,745</u>	<u>\$ 313,315,804</u>	<u>\$ 306,392,113</u>



## LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>	<u>2011</u> (As restated)
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 10,199,631	\$ 11,713,617	\$ 8,282,421
Retainages payable	2,345,355	1,308,329	626,823
Due to other governments	-	1,885,588	-
Unearned revenue	7,740	108,208	93,750
Accrued salaries	28,255	23,921	99,901
Accrued interest payable	232,271	257,291	279,108
Current maturities of compensated absences payable	17,688	5,883	3,094
Current maturities of bonds payable	<u>2,525,000</u>	<u>2,445,000</u>	<u>2,380,000</u>
Total current liabilities	<u>15,355,940</u>	<u>17,747,837</u>	<u>11,765,097</u>
<b>NON-CURRENT LIABILITIES</b>			
Compensated absences payable, net of current maturities	206,197	198,756	190,278
Bonds payable, net of current portion	14,205,000	16,730,000	19,175,000
Payable from restricted assets:			
Customer deposits	<u>900</u>	<u>900</u>	<u>700</u>
Total non-current liabilities	<u>14,412,097</u>	<u>16,929,656</u>	<u>19,365,978</u>
Total liabilities	<u>29,768,037</u>	<u>34,677,493</u>	<u>31,131,075</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	236,868,970	180,273,555	177,395,062
Restricted	450,000	450,000	650,000
Unrestricted	<u>100,019,738</u>	<u>97,914,756</u>	<u>97,215,976</u>
Total net position	<u>337,338,708</u>	<u>278,638,311</u>	<u>275,261,038</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 367,106,745</u></u>	<u><u>\$ 313,315,804</u></u>	<u><u>\$ 306,392,113</u></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 POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2013, 2012 AND 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u> (As restated)
<b>OPERATING REVENUES</b>			
Charges for services	\$ 5,147,917	\$ 5,263,008	\$ 5,423,214
Revenue from leases	<u>8,944,567</u>	<u>8,926,761</u>	<u>8,911,646</u>
Total operating revenues	<u>14,092,484</u>	<u>14,189,769</u>	<u>14,334,860</u>
<b>OPERATING EXPENSES</b>			
General and administrative	2,689,853	2,603,484	2,563,713
Contractual services	18,370,892	41,083,844	21,085,851
Commodities	295,487	321,169	370,219
Depreciation	<u>6,345,303</u>	<u>6,314,827</u>	<u>6,016,809</u>
Total operating expenses	<u>27,701,535</u>	<u>50,323,324</u>	<u>30,036,592</u>
<b>LOSS FROM OPERATIONS</b>	<u>(13,609,051)</u>	<u>(36,133,555)</u>	<u>(15,701,732)</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>			
Revenue from County	958,260	950,065	972,846
Interest and other investment income	262,443	313,083	372,343
Transfers in from other State agencies	70,914,444	26,470,586	18,941,257
Transfers in from other governments	980,750	12,577,128	8,191,947
Insurance proceeds	-	-	12,500,000
Interest expense and other fiscal charges	(815,243)	(799,958)	(864,872)
Gain (loss) on disposal of capital assets	<u>8,794</u>	<u>(76)</u>	<u>9,596</u>
Total non-operating revenue (expenses)	<u>72,309,448</u>	<u>39,510,828</u>	<u>40,123,117</u>
<b>CHANGE IN NET POSITION</b>	<u>58,700,397</u>	<u>3,377,273</u>	<u>24,421,385</u>
<b>TOTAL NET POSITION - BEGINNING</b>	<u>278,638,311</u>	<u>275,261,038</u>	<u>250,839,653</u>
<b>TOTAL NET POSITION - ENDING</b>	<u>\$ 337,338,708</u>	<u>\$ 278,638,311</u>	<u>\$ 275,261,038</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, 2013, 2012 AND 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u> (As restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 13,990,042	\$ 16,094,308	\$ 14,378,803
Cash payments for personnel services	(2,666,273)	(2,668,197)	(2,535,654)
Cash payments to suppliers of goods and services	(11,638,417)	(12,042,627)	(14,519,818)
Net cash provided by (used in) operating activities	<u>(314,648)</u>	<u>1,383,484</u>	<u>(2,676,669)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Cash received from other governments	2,822,007	10,194,801	3,268,996
Cash payments to subrecipients	(15,249,030)	(26,580,923)	(1,669,533)
Transfers in from other State agencies	70,711,031	24,597,614	22,063,824
Net cash provided by noncapital financing activities	<u>58,284,008</u>	<u>8,211,492</u>	<u>23,663,287</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Cash payments from grants	(878,035)	(686,277)	(465,782)
Cash received for capital asset disposal	22,510	-	18,861
Acquisition and construction of capital assets	(51,941,029)	(6,760,449)	(16,270,748)
Insurance proceeds	-	-	12,500,000
Interest paid	(734,342)	(804,598)	(862,084)
Principal paid on bonds payable	(2,445,000)	(2,380,000)	(2,325,000)
Net cash used in capital and related financing activities	<u>(55,975,896)</u>	<u>(10,631,324)</u>	<u>(7,404,753)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of investments	(34,984,975)	(82,806,098)	(68,595,975)
Interest received	308,763	465,796	672,724
Proceeds from maturities of investments	18,000,000	76,905,000	62,345,000
Net cash used in investing activities	<u>(16,676,212)</u>	<u>(5,435,302)</u>	<u>(5,578,251)</u>
Net change in cash and cash equivalents	<u>(14,682,748)</u>	<u>(6,471,650)</u>	<u>8,003,614</u>
Cash and cash equivalents at beginning of year	<u>23,935,090</u>	<u>30,406,740</u>	<u>22,403,126</u>
Cash and cash equivalents at end of year	<u>\$ 9,252,342</u>	<u>\$ 23,935,090</u>	<u>\$ 30,406,740</u>
<b>CLASSIFIED ON THE COMPARATIVE BALANCE SHEETS AS FOLLOWS:</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 8,513,692	\$ 23,195,732	\$ 29,455,941
Equity in internal investment pool	737,750	738,458	750,099
Restricted Assets:			
Cash and cash equivalents	<u>900</u>	<u>900</u>	<u>200,700</u>
Cash and cash equivalents at end of year	<u>\$ 9,252,342</u>	<u>\$ 23,935,090</u>	<u>\$ 30,406,740</u>

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT**  
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**COMPARATIVE STATEMENTS OF CASH FLOWS (Continued)**  
**FOR THE YEARS ENDED JUNE 30, 2013, 2012 AND 2011**

	<u>2013</u>	<u>2012</u>	<u>2011</u> (As restated)
<b>RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Loss from operations	<u>\$ (13,609,051)</u>	<u>\$ (36,133,555)</u>	<u>\$ (15,701,732)</u>
Adjustments reconciling loss from operations to net cash provided by (used in) operating activities:			
Depreciation	6,345,303	6,314,827	6,016,809
Provision for loss on accounts receivable	-	-	823
Noncapital payments to subrecipient	15,249,030	26,580,923	1,669,533
Noncapital payments to other governments	1,885,588	-	-
Noncapital deferred revenue	-	(22,467)	26,043
(Increase) decrease in assets:			
Accounts receivable	(54,758)	1,424	39,545
Prepaid expenses	(53,735)	(44,784)	49,224
Deferred asset	52,783	25,336	25,336
Increase (decrease) in liabilities:			
Accounts payable	(8,167,332)	2,826,247	5,217,495
Due to other governments	(1,885,588)	1,885,588	-
Deferred revenue	(100,468)	14,458	(46,804)
Accrued salaries	4,334	(75,980)	13,781
Accrued compensated absences	19,246	11,267	14,278
Customer deposits	-	200	(1,000)
Total adjustments	<u>13,294,403</u>	<u>37,517,039</u>	<u>13,025,063</u>
Net cash provided by (used in) operating activities	<u><u>\$ (314,648)</u></u>	<u><u>\$ 1,383,484</u></u>	<u><u>\$ (2,676,669)</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, 2013, 2012, AND 2011**

**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.

**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  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Cash Equivalents**

Cash and cash equivalents include 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, 2013, 2012, and 2011 the Authority's share in the pooled investment as a state agency consists of cash and totals \$737,750, \$738,458, and \$750,099, respectively.

**Investments**

The Authority reports investments at fair value which are readily available market quotations. Unrealized gains and losses are reported in interest and other investment income in the statements of revenues, expenses, and changes in net position.

**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:

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT  
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NOTES TO FINANCIAL STATEMENTS  
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**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.

**Unearned 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 Position**

The Authority's net position is 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.



**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT  
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NOTES TO FINANCIAL STATEMENTS  
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**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, 2013, the carrying amount of the Authority's deposits (including restricted deposits) was \$9,252,342 and the bank balances totaled \$9,533,402. 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**  
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**NOTE 2: DEPOSITS AND INVESTMENTS (Continued)**

**Deposits (continued)**

As of June 30, 2013, 2012, and 2011, restricted cash and cash equivalents consist of the following:

	2013	2012	2011
Current:			
Restricted for customer deposits	\$ 900	\$ 900	\$ 900
Restricted for other purposes	-	-	200,000
Total current	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 200,000</u>

**Investments**

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

	2013	2012	2011
U.S. Government securities and agencies	<u>\$ 82,380,255</u>	<u>\$ 65,442,651</u>	<u>\$ 59,636,141</u>

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

	2013	2012	2011
<b>Current Assets:</b>			
Investments in U.S. Government securities and agencies	\$ 57,442,555	\$ 8,001,102	\$ 56,631,251
<b>Non-Current Assets</b>			
Investments in U.S. Government securities and agencies	<u>24,937,700</u>	<u>57,441,549</u>	<u>3,004,890</u>
Total investments	<u>\$ 82,380,255</u>	<u>\$ 65,442,651</u>	<u>\$ 59,636,141</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 \$898,860, 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, 2013. 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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**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>Credit Rating</u>	<u>Fair Value</u>		
		<u>2013</u>	<u>2012</u>	<u>2011</u>
Mutual funds	AA+	\$ 898,860	\$ 14,626,638	\$ 25,113,124
U.S. Government securities and agencies	AA+	<u>82,380,255</u>	<u>65,442,651</u>	<u>59,636,141</u>
Total		<u>\$ 83,279,115</u>	<u>\$ 80,069,289</u>	<u>\$ 84,749,265</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, 2013 are as follows:

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
Mutual funds	\$ 898,860	\$ 898,860	\$ -
U.S. Government securities and agencies	<u>82,380,255</u>	<u>24,937,700</u>	<u>57,442,555</u>
	<u>\$ 83,279,115</u>	<u>\$ 25,836,560</u>	<u>\$ 57,442,555</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.

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**NOTE 3: ACCOUNTS RECEIVABLE**

The following is a summary of accounts receivable at June 30:

	2013	2012	2011
Accounts receivable from customers	\$ 1,806,541	\$ 1,751,783	\$ 1,753,207
Less: allowance for doubtful accounts	<u>(1,048,590)</u>	<u>(1,048,590)</u>	<u>(1,048,590)</u>
Accounts receivable, net	<u>\$ 757,951</u>	<u>\$ 703,193</u>	<u>\$ 704,617</u>

The Authority recorded no bad debt expense for the fiscal years ended June 30, 2013 and 2012. Bad debt expense for the year ended June 30, 2011 was \$823. 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 position.

**NOTE 4: DUE FROM OTHER STATE AGENCIES**

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

	2013	2012	2011
MEMA - FEMA Hurricane Katrina Projects	\$ 7,776,326	\$ 9,955,453	\$ 8,384,982
MEMA - FEMA Hurricane Gustav Projects	635,777	636,258	389,511
MDA - HUD/CDBG Port restoration projects	11,613,895	11,460,889	1,429,683
MDOT - Multimodal Port Grant	359,827	-	-
DFA - Funds 3934 and 3973 transfers	436	-	-
	<u>\$ 20,386,261</u>	<u>\$ 22,052,600</u>	<u>\$ 10,204,176</u>

**NOTE 5: DUE FROM OTHER GOVERNMENTS**

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

	2013	2012	2011
Harrison County Tax Collector - Ad Valorem Taxes	\$ 19,472	\$ 21,020	\$ 16,685
FEMA - Homeland Security Grant Project	24,976	17,201	465,918
Department of Transportation - TIGER Grant	-	905,059	5,895,959
	<u>\$ 44,448</u>	<u>\$ 943,280</u>	<u>\$ 6,378,562</u>

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT**  
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**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. The Authority received no significant insurance proceeds for the fiscal years ended June 30, 2013 and 2012. For the fiscal year ended June 30, 2011, the Authority received \$12,500,000 in insurance proceeds related to Hurricane Katrina. As of June 30, 2011, a total \$12,500,000 of insurance proceeds is recognized as non-operating revenues on the statements of revenues, expenses, and changes in net position. The Authority has no insurance proceeds receivable as of June 30, 2013, 2012 and 2011.

**NOTE 7: CAPITAL ASSETS**

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

*For the fiscal year ended June 30, 2013*

	Balance July 1, 2012	Additions	Disposals	Transfers	Balance June 30, 2013
Land	\$ 65,970,082	\$ -	\$ -	\$ -	\$ 65,970,082
Buildings	25,193,876	-	-	6,270,068	31,463,944
Machinery and equipment	9,112,386	90,116	(21,945)	-	9,180,557
Land improvements	30,264,982	-	-	-	30,264,982
Infrastructure	124,636,057	-	-	-	124,636,057
Construction in progress	7,337,430	60,666,811	(247,491)	(6,270,068)	61,486,682
Total capital assets	262,514,813	60,756,927	(269,436)	-	323,002,304
Less: accumulated depreciation for:					
Buildings	(3,375,025)	(582,604)	-	-	(3,957,629)
Machinery and equipment	(2,375,655)	(581,342)	8,229	-	(2,948,768)
Land improvements	(12,650,444)	(1,237,544)	-	-	(13,887,988)
Infrastructure	(44,665,131)	(3,943,813)	-	-	(48,608,944)
Total accumulated depreciation	(63,066,255)	(6,345,303)	8,229	-	(69,403,329)
Net capital assets	\$ 199,448,558	\$ 54,411,624	\$ (261,207)	\$ -	\$ 253,598,975

Construction in progress at June 30, 2013 is primarily composed of construction costs for the fill project, the security gate complex, and wharf upgrades. For the year ended June 30, 2013, there was no capitalizable interest incurred on outstanding debt during the construction period.

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**NOTE 7: CAPITAL ASSETS (Continued)**

*For the fiscal year ended June 30, 2012*

	Balance July 1, 2011	Additions	Disposals	Transfers	Balance June 30, 2012
Land	\$ 65,970,082	\$ -	\$ -	\$ -	\$ 65,970,082
Buildings	25,193,876	-	-	-	25,193,876
Machinery and equipment	9,107,894	12,091	(7,599)	-	9,112,386
Land improvements	27,682,541	-	-	2,582,441	30,264,982
Infrastructure	123,214,540	-	-	1,421,517	124,636,057
Construction in progress	3,805,609	7,883,383	(347,604)	(4,003,958)	7,337,430
Total capital assets	<u>254,974,542</u>	<u>7,895,474</u>	<u>(355,203)</u>	<u>-</u>	<u>262,514,813</u>
Less: accumulated depreciation for:					
Buildings	(2,847,558)	(527,467)	-	-	(3,375,025)
Machinery and equipment	(1,794,197)	(588,981)	7,523	-	(2,375,655)
Land improvements	(11,464,358)	(1,186,086)	-	-	(12,650,444)
Infrastructure	(40,652,838)	(4,012,293)	-	-	(44,665,131)
Total accumulated depreciation	<u>(56,758,951)</u>	<u>(6,314,827)</u>	<u>7,523</u>	<u>-</u>	<u>(63,066,255)</u>
Net capital assets	<u>\$ 198,215,591</u>	<u>\$ 1,580,647</u>	<u>\$ (347,680)</u>	<u>\$ -</u>	<u>\$ 199,448,558</u>

Construction in progress at June 30, 2012 is primarily composed of construction costs for the fill project and the Chiquita office and facility. For the year ended June 30, 2012, there was no capitalizable interest incurred on outstanding debt during the construction period.

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7: CAPITAL ASSETS (Continued)**

*For the fiscal year ended June 30, 2011 (as restated)*

	Balance July 1, 2010	Additions	Disposals	Transfers	Balance June 30, 2011
Land	\$ 37,264,219	\$ -	\$ -	\$ 28,705,863	\$ 65,970,082
Buildings	25,193,876	-	-	-	25,193,876
Machinery and equipment	9,178,595	21,945	(92,646)	-	9,107,894
Land improvements	25,103,237	-	-	2,579,304	27,682,541
Infrastructure	103,831,093	-	-	19,383,447	123,214,540
Construction in progress	40,402,834	14,881,486	(810,097)	(50,668,614)	3,805,609
Total capital assets	240,973,854	14,903,431	(902,743)	-	254,974,542
Less: accumulated depreciation for:					
Buildings	(2,320,092)	(527,466)	-	-	(2,847,558)
Machinery and equipment	(1,285,457)	(592,122)	83,382	-	(1,794,197)
Land improvements	(10,330,112)	(1,134,246)	-	-	(11,464,358)
Infrastructure	(36,889,863)	(3,762,975)	-	-	(40,652,838)
Total accumulated depreciation	(50,825,524)	(6,016,809)	83,382	-	(56,758,951)
Net capital assets	\$ 190,148,330	\$ 8,886,622	\$ (819,361)	\$ -	\$ 198,215,591

Construction in progress at June 30, 2011 is primarily composed of construction costs for the security lighting project, erosion protection, phase III of fill project, and fender system repairs. For the year ended June 30, 2011, there was no capitalizable interest incurred on outstanding debt during the construction period.

**NOTE 8: UNEARNED REVENUE**

As of June 30, unearned revenue includes the following:

	2013	2012	2011
HUD-CDBG	\$ -	\$ 9,851	\$ -
Dupont	-	96,750	93,750
Cellular South	-	1,607	-
RJ Young	7,740	-	-
	<u>\$ 7,740</u>	<u>\$ 108,208</u>	<u>\$ 93,750</u>

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT**  
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**NOTE 8: UNEARNED 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.

Beginning with fiscal year 2013, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Under these Statements, the unamortized lease incentive would be presented as a deferred outflow of resources. Due to the immaterial remaining balance, management elected to expense the remaining unamortized lease incentive, \$27,447, in the fiscal year ended June 30, 2013. As of June 30, 2013, \$124,568 has been amortized with no remaining balance. For the fiscal years ended June 30, 2012 and 2011, \$52,783 and \$78,119, respectively, have been recognized as deferred assets on the balance sheets.

**NOTE 9: DUE TO OTHER GOVERNMENTS**

Due to other governments at June 30, 2012 consists of amounts received from the Federal Emergency Management Agency (FEMA) for Hurricane Katrina expenditures that were deobligated by the federal agency in 2012.

**NOTE 10: 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 balance sheets.

See additional information with regard to environmental contingency associated with the lease in Note 18.

**NOTE 11: 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, 2013*

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at July 1, 2012	Principal Payments	Balance at June 30, 2013
2009C	\$ 25,240,000	4/2/2009	9/1/2018	1.44-4.65%	\$ 19,175,000	\$ (2,445,000)	\$ 16,730,000
Less: current maturities included in current liabilities					(2,445,000)		(2,525,000)
Bonds payable, net of current portion					\$ 16,730,000		\$ 14,205,000



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**NOTE 11: BONDS PAYABLE (Continued)**

*For the fiscal year ended June 30, 2012*

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at July 1, 2011	Principal Payments	Balance at June 30, 2012
2009C	\$ 25,240,000	4/2/2009	9/1/2018	1.44-4.65%	\$ 21,555,000	\$ (2,380,000)	\$ 19,175,000
Less: current maturities included in current liabilities					(2,380,000)		(2,445,000)
Bonds payable, net of current portion					\$ 19,175,000		\$ 16,730,000

*For the fiscal year ended June 30, 2011*

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at July 1, 2010	Principal Payments	Balance at June 30, 2011
2009C	\$ 25,240,000	4/2/2009	9/1/2018	1.44-4.65%	\$ 23,880,000	\$ (2,325,000)	\$ 21,555,000
Less: current maturities included in current liabilities					(2,325,000)		(2,380,000)
Bonds payable, net of current portion					\$ 21,555,000		\$ 19,175,000

The Authority's future principal and interest requirements related to the bonds payable at June 30, 2013 are as follows:

Year	Principal	Interest	Total
2014	\$ 2,525,000	\$ 652,498	\$ 3,177,498
2015	2,615,000	558,368	3,173,368
2016	2,715,000	454,252	3,169,252
2017	2,830,000	340,522	3,170,522
2018	2,950,000	212,505	3,162,505
2019	3,095,000	71,959	3,166,959
	<u>\$16,730,000</u>	<u>\$2,290,104</u>	<u>\$19,020,104</u>

Interest incurred on bonds payable totaled \$709,322, \$782,781, and \$845,577 for fiscal years ended June 30, 2013, 2012, and 2011, respectively.

*Bond Issuance Costs*

Beginning with fiscal year 2013, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Under these Statements, bond issuance costs are no longer capitalized and amortized over the life of the bonds. Accordingly, the remaining net capitalized bond issuance costs, \$105,921, were expensed in the fiscal year ended June 30, 2013. For the fiscal years ended June 30, 2012 and 2011 bond issuance costs were capitalized as unamortized bond issue costs on the balance sheets and amortized on a straight line basis over the life of the bonds. Net capitalized unamortized bond issue costs were \$105,921 and \$123,098, respectively, for the years ended June 30, 2012 and 2011.

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**NOTE 12: COMPENSATED ABSENCES**

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

	<u>Beginning Balance</u>	<u>Earned</u>	<u>Used</u>	<u>Ending Balance</u>	<u>Due within 12 months</u>
2013	<u>\$ 204,639</u>	<u>\$ 189,356</u>	<u>\$(170,110)</u>	<u>\$ 223,885</u>	<u>\$ 17,688</u>
2012	<u>\$ 193,372</u>	<u>\$ 164,380</u>	<u>\$(153,113)</u>	<u>\$ 204,639</u>	<u>\$ 5,883</u>
2011	<u>\$ 179,094</u>	<u>\$ 170,045</u>	<u>\$(155,767)</u>	<u>\$ 193,372</u>	<u>\$ 3,094</u>

**NOTE 13: RESTATEMENT OF FINANCIAL STATEMENTS AND PRIOR PERIOD ADJUSTMENT**

In fiscal year 2012, the Authority determined payments made on a project that were capitalized in construction in progress as of June 30, 2011 should have been expensed. Therefore, the Authority recorded a prior period adjustment and restated its financials statements as of June 30, 2011.

The following financial statement line items as of and for the year ended June 30, 2011 were affected by this correction:

	<u>As Previously Stated</u>	<u>As Restated</u>	<u>Effect of Correction</u>
Balance Sheet at June 30, 2011:			
Construction in progress	\$ 4,540,083	\$ 3,805,609	\$ (734,474)
Net position	\$ 275,995,512	\$ 275,261,038	\$ (734,474)
Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2011:			
Contractual services	\$ 20,351,377	\$ 21,085,851	\$ 734,474
Change in net position	\$ 25,155,859	\$ 24,421,385	\$ (734,474)
Statement of Cash Flows for the year ended June 30, 2011:			
Cash payments to suppliers of goods and services	\$ 13,785,344	\$ 14,519,818	\$ 734,474
Acquisition and construction of capital assets	\$ 17,005,222	\$ 16,270,748	\$ (734,474)

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT**  
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**NOTE 14: 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 \$8,944,567, \$8,926,761, and \$8,911,646 for 2013, 2012, and 2011, respectively. The leases to gaming operations include contingent rentals of \$5,996,030, \$6,002,919, and \$6,002,920 for 2013, 2012, and 2011, 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.

The following is a schedule of future minimum rentals through the end of the lease agreements in effect as of June 30, 2013, not including contingent rentals, consumer price index adjustments, or thruput charges:

<u>Year</u>	<u>Amount</u>
2014	\$ 2,883,346
2015	2,646,355
2016	2,636,213
2017	2,636,213
2018	2,360,325
2019 - 2043	16,297,875
Total	<u><u>\$ 29,460,327</u></u>

**NOTE 15: 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 9% of their annual covered salary and the Authority is required to contribute at an actuarially determined rate. For the periods ending June 30, 2013, 2012, and 2011, the Authority's contribution rates were 14.26%, 12.93%, and 12% 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, 2013, 2012, and 2011 were \$300,888, \$255,127, and \$241,463, respectively, equal to the required contributions for each year.

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**NOTE 15: DEFINED BENEFIT PENSION PLAN (Continued)**

*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 GAAP for governmental entities as a single employer defined benefit healthcare plan. The State reports the liability associated with other postemployment benefits on an accrual basis. 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](http://www.dfa.state.ms.us).

**NOTE 16: 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 years ended June 30, 2013, 2012 and 2011 total \$164,509 for each year. Rent expenses are included in the statements of revenues, expenses, and changes in net position as contractual services.

*Office Space*

In March 2013, the Authority entered into a renewal lease agreement for office space at One Hancock Plaza in Gulfport, Mississippi. The office space lease is classified as an operating lease. The lease term is one year. Monthly rent under this lease agreement is \$5,159. Rent expense for the years ended June 30, 2013, 2012, and 2011 total \$50,660, \$45,036, and \$44,460, respectively. Rent expenses are included in the statements of revenues, expenses, and changes in net position as contractual services.

*Modular Office Building - Operations*

In October 2012, the Authority entered into a lease agreement for a modular office building. The lease is classified as an operating lease. The lease term is five years but is cancelable after thirty-six months. Monthly rent under this lease agreement is \$1,983. Rent expense for the year ended June 30, 2013 totals \$17,847. Rent expenses are included in the statements of revenues, expenses, and changes in net position as contractual services.

*Modular Office Building - Crowley*

In July 2012, the Authority entered into a lease agreement for a modular office building. The lease is classified as an operating lease. The lease term is five years but is cancelable after thirty-six months. Monthly rent under this lease agreement is \$1,048. Rent expense for the year ended June 30, 2013 totals \$11,528. Rent expenses are included in the statements of revenues, expenses, and changes in net position as contractual services.

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**NOTE 16: LEASES (continued)**

*Copier lease*

In February 2013, the Authority entered into a lease agreement for copiers. The lease is classified as an operating lease. The lease term is four years. Monthly rent under this lease agreement is \$1,100. Rent expense for the year ended June 30, 2013 totals \$5,500. Rent expenses are included in the statements of revenues, expenses, and changes in net position as contractual services.

*Minimum Future Lease Payments*

The minimum future lease payments on the above leases at June 30, 2013 are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 255,355
2015	49,572
2016	20,197
2017	7,700
Total	<u>\$ 332,824</u>

**NOTE 17: ECONOMIC DEPENDENCY**

One gaming operations lessee accounted for approximately 54 percent of the operating revenues in fiscal year ended June 30, 2013, and 53 percent of the operating revenues in fiscal years ended June 30, 2012 and 2011.

**NOTE 18: COMMITMENTS AND CONTINGENCIES**

**Commitments**

*Construction in Progress*

Construction in progress at June 30, 2013 is primarily composed of construction costs for the fill project, the security gate complex, and wharf upgrades. The total amount of the construction contracts in progress as of June 30, 2013 is \$128,617,680, of which \$61,486,682 in construction costs has been incurred through June 30, 2013. Of the construction costs incurred as of June 30, 2013 the Authority remains obligated to pay \$8,520,762 from unrestricted cash. The Authority is further obligated to pay the remaining amount of \$67,131,000 as work progresses on these construction contracts from federal grants and 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.

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**NOTE 18: COMMITMENTS AND CONTINGENCIES (Continued)**

*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 low levels of arsenic and lead 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, 2013, 2012, and 2011. See additional information in Note 10.

*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 contingency is included in current restricted assets - cash and cash equivalents on the 2011 balance sheet. The project was completed as of June 30, 2012 and the Government withdrew the funds from the escrow account.

*Litigation*

In April 2012, a construction company filed suit against the Mississippi Department of Finance and Administration and the Authority. The suit is disputing a contract award related to the fill project. Legal counsel's estimated potential liability is \$3,000,000 should the construction company succeed. However, the Authority and its attorneys believe the Authority will ultimately prevail in this matter. No accrual for losses as a result of the litigation has been made in the financial statements and, as such, losses, if any, are not probable.

*Settlement Negotiation*

The Authority is currently in settlement negotiations with a lessee who sustained damages when a sprinkler system malfunctioned. This matter is not in litigation at present and is not expected to go into litigation in the future. The expected net loss is approximately \$35,000 to \$45,000. As a member and participant in the Mississippi Tort Claims Fund, the Authority will incur no expense related to this expected loss. See additional information in Note 20.

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**NOTE 19: 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 20: 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.

*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 21: SUBSEQUENT EVENT**

The Authority has evaluated events occurring subsequent to year end through September 23, 2013, which is the date the financial statements were available to be issued. The following was identified as a subsequent event:

Contracts entered into subsequent to year end total \$12,312,296. They include contracts for west pier shore protection, installation of prefabricated vertical drains, and the design of the new bulk handling facility.

## **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 23, 2013

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Mississippi State Port Authority at Gulfport, an agency of the State of Mississippi, as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated September 23, 2013.

**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 (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Mississippi State Port Authority at Gulfport's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Mississippi State Port Authority at Gulfport's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mississippi State Port Authority at Gulfport's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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 23, 2013

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

**Report on Compliance for Each Major Federal Program**

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 *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, 2013. 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.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Mississippi State Port Authority at Gulfport's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Mississippi State Port Authority at Gulfport's compliance.

***Opinion on Each Major Federal Program***

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, 2013.

## **Report on 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 types of compliance requirements referred to above. In planning and performing our audit, we considered the Mississippi State Port Authority at Gulfport's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
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, 2013**

<b>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Homeland Security</b>			
Passed through the Mississippi Emergency Management Agency (MEMA):			
Disaster Public Assistance Grant	97.036		
Hurricane Katrina		PW6480	\$ 27,996
		PW7999	22,747
		PW8908	141,883
		PW9932	5,353
		PW9836	2,366,974
			<u>2,564,953</u>
Port Security Grant Program	97.056	2008-GB-T9-0039	885,809
			<u>885,809</u>
<i>Total U.S. Department of Homeland Security</i>			<u>3,450,762</u>
<b>U.S. Department of Transportation</b>			
ARRA Transportation Investments Generating Economic Recovery (TIGER) Discretionary Grant Program	20.500	DTMA1G10008	94,941
			<u>94,941</u>
<i>Total U.S. Department of Transportation</i>			<u>94,941</u>
<b>U.S. Department of Housing and Urban Development</b>			
Passed through the Mississippi Development Authority (MDA):			
Community Block Development Grant			
Disaster Recovery	14.228	R115-06-02	63,427,930
Katrina Supplemental		R-103-936-01-KED	5,490,552
			<u>68,918,482</u>
<i>Total U.S. Department of Housing and Urban Development</i>			<u>68,918,482</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 72,464,185</u></u>

See the accompanying notes to the schedule of expenditures of federal awards.

**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, 2013**

**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- SUBRECIPIENT**

Of the federal expenditures presented in the schedule, the Mississippi State Port Authority at Gulfport provided federal awards totaling \$5,585,493 to subrecipients related to the ARRA Transportation Investments Generating Economic Recovery (TIGER) Discretionary Grant Program and the Community Block Development Grant – Katrina Supplemental during the year ended June 30, 2013.

**NOTE 3- 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 position for the year ended June 30, 2013:

Total expenditures of federal awards	\$ 72,464,185
Project worksheets (PW) deobligations in current year for federal expenditures in prior years	<u>(1,193,991)</u>
Total federal revenues	<u><u>\$ 71,270,194</u></u>
Non-operating revenues (expenses)	
Transfers in from other State agencies	\$ 70,914,444
Transfers in from other governments	980,750
Less: non-federal State agency grant	<u>(625,000)</u>
Total federal revenues	<u><u>\$ 71,270,194</u></u>

**NOTE 4- UNEXPENDED GRANT APPROPRIATIONS**

The following are unexpended grant awards at June 30, 2013:

Federal agency	FEMA	DOT	HUD
Total awards at June 30, 2013	\$ 72,625,123	\$ 20,000,000	\$ 590,383,175
Total expenditures at June 30, 2013	<u>(49,659,011)</u>	<u>(20,000,000)</u>	<u>(141,575,860)</u>
Unexpended at June 30, 2013	<u><u>\$ 22,966,112</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 448,807,315</u></u>

**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, 2013**

**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?	No

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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Auditee qualified as low-risk auditee?	*
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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.

**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, 2013**

**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, 2013**

**Section III – Federal Award Findings and Questioned Costs**

None noted