

**MISSISSIPPI STATE PORT AUTHORITY
AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
FINANCIAL STATEMENTS
JUNE 30, 2015, 2014, AND 2013**



MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
LIST OF OFFICIALS
JUNE 30, 2015

Board of Commissioners

Term

Jack Norris	President	12/2015
E. J. Roberts	Vice-President	12/2016
Robert J. Knesal	Secretary	12/2017
James C. Simpson, Jr.	Treasurer	12/2018
John K. Rester	Commissioner	12/2019

Executive Director and Chief Executive Officer

Jonathan T. Daniels

Director of Finance

Mary J. Bourdin, CPA

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
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JUNE 30, 2015, 2014, AND 2013

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INDEPENDENT AUDITORS' REPORT



ALEXANDER | VAN LOON | SLOAN | LEVENS | FAVRE, PLLC
Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC
Wealth Management

INDEPENDENT AUDITORS' REPORT

October 26, 2015

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, 2015, 2014, and 2013, 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
October 26, 2015

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, 2015, 2014, and 2013, 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. The supplementary information related to net pension liability and contributions is required by the Governmental Accounting Standards Board and is included on pages 35 through 37. 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
October 26, 2015

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015, 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

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, 2015, 2014, and 2013. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Financial Highlights

- The Authority's net position increased \$84.6 million as a result of this year's operations. Last year's operations increased net position by \$32.3 million as compared to a \$58.7 million increase in FY 2013.
- Total operating revenues for 2015 were \$14.1 million compared to \$14.7 million for Fiscal Year 2014 and \$14.1 million for Fiscal Year 2013.
- Maritime revenues decreased 4.0% or \$268,999 in Fiscal Year 2015 compared to a 4.6% increase in the prior year. 2015 maritime revenues were \$6.5 million compared to \$6.8 million in Fiscal Year 2014. Maritime revenues were \$6.5 million in Fiscal Year 2013.
- As of June 30, 2015, the Authority's operating expenses totaled \$25.6 million, resulting in a net operating loss of \$11.5 million. This compares to a Fiscal Year 2014 net operating loss of \$10.3 million and \$13.6 million for Fiscal Year 2013. Fiscal Year 2015 operating expenses included \$9.1 million of CDBG grant reimbursable expenses. In FY 2014 reimbursable grant operating expenditures totaled \$10 million. In Fiscal Year 2013 reimbursable grant expenditures were \$13.4 million.
- Depreciation for Fiscal Year 2015 was \$6.3 million compared to \$6.4 million for FY 2014 and \$6.3 million for FY 2013.
- The Authority spent over \$99 million as it continued implementation of its facility restoration plan during Fiscal Year 2015. \$75.3 million in CDBG grant funds were received as funding for some of the projects. Projects completed during the year include the Small Craft Harbor breakwater, the Shed 50 rail improvements, and wharf enhancements on 3 of the 6 West Pier Berths. On-going projects included continuation of the West Pier wharf upgrades, the bulk storage facility, tenant maintenance and repair shop, terminal transit shed and installation of utilities and infrastructure. Construction of 3 rail mounted gantry cranes to be imported from China was also started.
- 114.23 inland acres of land, facilities and equipment were purchased for \$32 million in conjunction with a lease/purchase arrangement with a new Tenant. As part of the marketing program the Port approved several confidential Memorandums of Understanding with potential new tenants.
- The Authority is working to complete and close out the final project from Hurricane Katrina. \$20.3 million in FEMA funds were received during Fiscal Year 2015 compared to \$10.2 million during Fiscal Year 2014 and \$1.7 million in Fiscal Year 2013. Fiscal Year 2015 ended with an additional \$3.3 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 Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, 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.

Statements of Net Position

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 Statement of Net Position as of June 30, 2015 with comparative amounts for June 30, 2014, 2013 and June 30, 2012 is as follows:

ASSETS AND DEFERRED OUTFLOW OF RESOURCES				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
CURRENT ASSETS				
Cash and investments	\$ 68,478,849	\$ 41,056,826	\$ 66,693,997	\$ 31,935,292
Accounts receivable	1,520,970	1,466,665	757,951	703,193
Other Receivables	23,581,511	7,227,519	20,495,045	23,059,166
Prepaid expenses	105,028	204,681	172,177	118,442
Restricted assets:				
Cash and investments	150,000	150,900	900	900
Total current assets	<u>93,836,358</u>	<u>50,106,591</u>	<u>88,120,070</u>	<u>55,816,993</u>
NON-CURRENT ASSETS				
Capital assets	375,995,154	283,625,550	253,598,975	199,448,558
Other assets				
Investments	-	57,142,130	24,937,700	57,441,549
Note Receivable	21,163,793			
Restricted - Lease Deposit	450,000	450,000	450,000	450,000
Incentive to lessee	-	-	-	52,783
Unamortized bond issue costs	-	-	-	105,921
Total non-current assets	<u>397,608,947</u>	<u>341,217,680</u>	<u>278,986,675</u>	<u>257,498,811</u>
Total assets	<u>491,445,305</u>	<u>391,324,271</u>	<u>367,106,745</u>	<u>313,315,804</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows for pensions	<u>413,262</u>	<u>-</u>	<u>-</u>	<u>-</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Comparative Statements of Net Position (Continued)

LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES				
Accounts payable and accruals	\$ 20,973,232	\$ 6,090,202	\$ 10,485,585	\$ 13,994,508
Retainages payable	3,992,214	976,699	2,345,355	1,308,329
Bonds payable	2,715,000	2,615,000	2,525,000	2,445,000
Total current liabilities	<u>27,680,446</u>	<u>9,681,901</u>	<u>15,355,940</u>	<u>17,747,837</u>
NON-CURRENT LIABILITIES				
Bonds payable	8,875,000	11,590,000	14,205,000	16,730,000
Compensated absences	232,956	218,760	206,197	198,756
Net pension liability	4,430,431			
Payable from restricted assets:				
Customer deposits	<u>150,000</u>	<u>150,900</u>	<u>900</u>	<u>900</u>
Total non-current liabilities	<u>13,688,387</u>	<u>11,959,660</u>	<u>14,412,097</u>	<u>16,929,656</u>
Total liabilities	<u>41,368,833</u>	<u>21,641,561</u>	<u>29,768,037</u>	<u>34,677,493</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows for pensions	<u>513,779</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION				
Invested in capital assets, net of related debt	364,405,151	269,420,547	236,868,970	180,273,555
Restricted	450,000	450,000	450,000	450,000
Unrestricted	<u>85,120,804</u>	<u>99,812,163</u>	<u>100,019,738</u>	<u>97,914,756</u>
TOTAL NET POSITION	<u>\$ 449,975,955</u>	<u>\$ 369,682,710</u>	<u>\$ 337,338,708</u>	<u>\$ 278,638,311</u>

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents information showing how the Authority's net position have changed in the most recent fiscal year and the years presented for comparison. All changes in net position 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 Position (Continued)

In the statement of revenues, expenses, and changes in net position, 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 Position for the fiscal years ended June 30, 2015 with comparative amounts for June 30, 2014, 2013 and 2012 is as follows:

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
OPERATING REVENUES				
Charges for services	\$ 4,984,070	\$ 5,332,684	\$ 5,147,917	\$ 5,263,008
Revenue from leases	9,117,093	9,326,980	8,944,567	8,926,761
Total operating revenues	<u>14,101,163</u>	<u>14,659,664</u>	<u>14,092,484</u>	<u>14,189,769</u>
OPERATING EXPENSES	<u>25,615,556</u>	<u>24,996,587</u>	<u>27,701,535</u>	<u>50,323,324</u>
INCOME FROM OPERATIONS	<u>(11,514,393)</u>	<u>(10,336,923)</u>	<u>(13,609,051)</u>	<u>(36,133,555)</u>
NON-OPERATING REVENUE (EXPENSES)				
Revenue from County	937,191	931,242	958,260	950,065
Investment and other income	95,728,050	42,356,377	72,157,637	39,360,797
Insurance proceeds	6,403	12,438	-	-
Interest and other expenses	(525,158)	(622,955)	(815,243)	(799,958)
Gain/(loss) on disposal of assets	895	3,823	8,794	(76)
Total non-operating revenue (expenses)	<u>96,147,381</u>	<u>42,680,925</u>	<u>72,309,448</u>	<u>39,510,828</u>
CHANGE IN NET POSITION	84,632,988	32,344,002	58,700,397	3,377,273
TOTAL NET POSITION - BEGINNING, before restatement	<u>369,682,710</u>	<u>337,338,708</u>	<u>278,638,311</u>	<u>275,261,038</u>
Cumulative effect of change in accounting principle	<u>(4,339,743)</u>	-	-	-
Net position - restated	<u>365,342,967</u>	-	-	-
TOTAL NET POSITION - ENDING	<u>\$ 449,975,955</u>	<u>\$ 369,682,710</u>	<u>\$ 337,338,708</u>	<u>\$ 278,638,311</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 Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position 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 position 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 2015 were \$99 million. Projects completed during the year include the Small Craft Harbor breakwater, wharf enhancements on the West Pier and Shed 50 rail improvements on the East Pier. Pile driving was started for the West Pier warehouse and a tenant maintenance and repair shop. Construction of 3 rail mounted gantry cranes to be imported from China was also started.

Analysis of the Authority's current year cash flows shows a net increase of \$1.7 million in cash from the previous year. This compares to an \$8.1 million increase in Fiscal Year 2014 and a \$14.7 million decrease in cash flows from Fiscal Year 2013. The primary utilization of cash during Fiscal Year 2015 was for the acquisition and construction of capital assets.

Other Potentially Significant Matters

Capital Asset Administration

CAPITAL ASSETS AS OF JUNE 30				
(Net of Depreciation, in Millions)				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 125.4	\$ 125.4	\$ 66.0	66.0
Buildings	28.5	29.2	27.5	21.8
Machinery and equipment	5.4	5.7	6.2	6.7
Land improvements	20.4	15.2	16.4	17.6
Infrastructure improvements	99.9	72.1	76.0	80.0
Construction in progress	96.5	36.0	61.5	7.3
	<u>\$ 376.1</u>	<u>\$ 283.6</u>	<u>\$ 253.6</u>	<u>199.4</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The Authority continues to maintain and expand its capital assets. Over \$223 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 16 to the Financial Statements provides detail of the Authority's outstanding construction commitments as of June 30, 2015.

Debt Administration

DEBT OUTSTANDING AS OF JUNE 30				
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
General Obligation Bonds: (backed by the State of Mississippi)				
Series 2009C	\$ 11,590,000	\$ 14,205,000	\$ 16,730,000	\$ 19,175,000

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

Economic Factors and Fiscal Year Ending June 30, 2016's Budget

The Authority's management considered a variety of factors when setting the Fiscal Year 2016 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)
STATEMENTS OF NET POSITION
JUNE 30, 2015, 2014 AND 2013

ASSETS AND DEFERRED OUTFLOW OF RESOURCES

	<u>2015</u>	<u>2014</u>	<u>2013</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 18,182,669	\$ 16,506,737	\$ 8,513,692
Equity in internal investment pool	744,084	737,750	737,750
Investments	49,552,096	23,812,339	57,442,555
Accrued interest receivable	68,726	88,039	64,337
Accounts receivable, net of allowance for doubtful accounts	1,520,969	1,466,665	757,951
Investment in lease	629,758	-	-
Due from other State agencies	22,863,811	7,120,740	20,386,261
Due from other governments	19,217	18,740	44,447
Prepaid expenses	105,028	204,681	172,177
Restricted assets:			
Cash and cash equivalents	150,000	150,900	900
Total current assets	<u>93,836,358</u>	<u>50,106,591</u>	<u>88,120,070</u>
NON-CURRENT ASSETS			
Capital assets:			
Land	125,392,044	125,392,044	65,970,082
Buildings, net of accumulated depreciation	28,469,624	29,169,438	27,506,315
Machinery and equipment, net of accumulated depreciation	5,417,983	5,703,855	6,231,789
Land improvements, net of accumulated depreciation	20,361,125	15,167,227	16,376,994
Infrastructure, net of accumulated depreciation	99,877,185	72,105,604	76,027,113
Construction in progress	96,477,193	36,087,382	61,486,682
Total capital assets, net of accumulated depreciation	<u>375,995,154</u>	<u>283,625,550</u>	<u>253,598,975</u>
Investments - non-current	-	57,142,130	24,937,700
Investment in lease - non-current	21,163,793	-	-
Restricted asset:			
Deposit	450,000	450,000	450,000
Total non-current assets	<u>397,608,947</u>	<u>341,217,680</u>	<u>278,986,675</u>
Total assets	<u>491,445,305</u>	<u>391,324,271</u>	<u>367,106,745</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows for pensions	<u>413,262</u>	<u>-</u>	<u>-</u>

LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION

	<u>2015</u>	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES			
Accounts payable	\$ 20,614,875	\$ 5,718,768	\$ 10,199,631
Retainages payable	3,992,214	976,699	2,345,355
Unearned revenue	111,802	107,577	7,740
Accrued salaries	49,696	38,473	28,255
Accrued interest payable	169,518	202,728	232,271
Current maturities of compensated absences payable	27,341	22,656	17,688
Current maturities of bonds payable	<u>2,715,000</u>	<u>2,615,000</u>	<u>2,525,000</u>
Total current liabilities	<u>27,680,446</u>	<u>9,681,901</u>	<u>15,355,940</u>
NON-CURRENT LIABILITIES			
Compensated absences payable, net of current maturities	232,956	218,760	206,197
Bonds payable, net of current portion	8,875,000	11,590,000	14,205,000
Net pension liability	4,430,431	-	-
Payable from restricted assets:			
Customer deposits	<u>150,000</u>	<u>150,900</u>	<u>900</u>
Total non-current liabilities	<u>13,688,387</u>	<u>11,959,660</u>	<u>14,412,097</u>
Total liabilities	<u>41,368,833</u>	<u>21,641,561</u>	<u>29,768,037</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows for pensions	<u>513,779</u>	<u>-</u>	<u>-</u>
NET POSITION			
Invested in capital assets, net of related debt	364,405,151	269,420,547	236,868,970
Restricted	450,000	450,000	450,000
Unrestricted	<u>85,120,804</u>	<u>99,812,163</u>	<u>100,019,738</u>
TOTAL NET POSITION	<u>\$ 449,975,955</u>	<u>\$ 369,682,710</u>	<u>\$ 337,338,708</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, 2015, 2014 AND 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
OPERATING REVENUES			
Charges for services	\$ 4,984,070	\$ 5,332,684	\$ 5,147,917
Revenue from leases	<u>9,117,093</u>	<u>9,326,980</u>	<u>8,944,567</u>
Total operating revenues	<u>14,101,163</u>	<u>14,659,664</u>	<u>14,092,484</u>
OPERATING EXPENSES			
General and administrative	3,036,546	2,962,810	2,689,853
Contractual services	15,482,177	15,345,928	18,370,892
Commodities	588,427	291,097	295,487
Pension liability adjustment expense	191,205	-	-
Depreciation	<u>6,317,201</u>	<u>6,396,752</u>	<u>6,345,303</u>
Total operating expenses	<u>25,615,556</u>	<u>24,996,587</u>	<u>27,701,535</u>
LOSS FROM OPERATIONS	<u>(11,514,393)</u>	<u>(10,336,923)</u>	<u>(13,609,051)</u>
NON-OPERATING REVENUE (EXPENSES)			
Revenue from County	937,191	931,242	958,260
Interest and other investment income	411,755	384,834	262,443
Transfers in from other State agencies	95,316,295	41,971,543	70,914,444
Transfers in from other governments	-	-	980,750
Insurance proceeds	6,403	12,438	-
Interest expense and other fiscal charges	(525,158)	(622,955)	(815,243)
Gain on disposal of capital assets	<u>895</u>	<u>3,823</u>	<u>8,794</u>
Total non-operating revenue (expenses)	<u>96,147,381</u>	<u>42,680,925</u>	<u>72,309,448</u>
CHANGE IN NET POSITION	<u>84,632,988</u>	<u>32,344,002</u>	<u>58,700,397</u>
TOTAL NET POSITION -			
BEGINNING, before restatement	369,682,710	337,338,708	278,638,311
Cumulative effect of change in accounting principle	<u>(4,339,743)</u>	<u>-</u>	<u>-</u>
Net position - restated	<u>365,342,967</u>	<u>-</u>	<u>-</u>
TOTAL NET POSITION - ENDING	<u><u>\$ 449,975,955</u></u>	<u><u>\$ 369,682,710</u></u>	<u><u>\$ 337,338,708</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 CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015, 2014 AND 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 14,052,301	\$ 14,202,904	\$ 13,990,042
Cash payments for personnel services	(3,006,437)	(2,935,067)	(2,666,273)
Cash payments to suppliers of goods and services	(13,356,224)	(15,609,857)	(11,638,417)
Net cash used in operating activities	<u>(2,310,360)</u>	<u>(4,342,020)</u>	<u>(314,648)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from other governments	936,714	956,949	2,822,007
Cash payments to subrecipients	-	-	(15,249,030)
Transfers in from other State agencies	79,571,113	55,234,953	70,711,031
Net cash provided by noncapital financing activities	<u>80,507,827</u>	<u>56,191,902</u>	<u>58,284,008</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash payments from grants	-	-	(878,035)
Cash received for capital asset disposal	895	10,200	22,510
Acquisition and construction of capital assets	(83,389,921)	(42,338,895)	(51,941,029)
Principal received on investment in lease	206,449	-	-
Acquisition of leased asset	(22,000,000)	-	-
Insurance proceeds	6,403	12,438	-
Interest paid	(558,368)	(652,498)	(734,342)
Principal paid on bonds payable	(2,615,000)	(2,525,000)	(2,445,000)
Net cash used in capital and related financing activities	<u>(108,349,542)</u>	<u>(45,493,755)</u>	<u>(55,975,896)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	-	(55,911,925)	(34,984,975)
Interest received	583,441	318,843	308,763
Proceeds from maturities of investments	31,250,000	57,380,000	18,000,000
Net cash provided by (used in) investing activities	<u>31,833,441</u>	<u>1,786,918</u>	<u>(16,676,212)</u>
Net change in cash and cash equivalents	1,681,366	8,143,045	(14,682,748)
Cash and cash equivalents at beginning of year	17,395,387	9,252,342	23,935,090
Cash and cash equivalents at end of year	<u>\$ 19,076,753</u>	<u>\$ 17,395,387</u>	<u>\$ 9,252,342</u>
CLASSIFIED ON THE COMPARATIVE BALANCE SHEETS AS FOLLOWS:			
CURRENT ASSETS			
Cash and cash equivalents	\$ 18,182,669	\$ 16,506,737	\$ 8,513,692
Equity in internal investment pool	744,084	737,750	737,750
Restricted Assets:			
Cash and cash equivalents	150,000	150,900	900
Cash and cash equivalents at end of year	<u>\$ 19,076,753</u>	<u>\$ 17,395,387</u>	<u>\$ 9,252,342</u>

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
COMPARATIVE STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2015, 2014 AND 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES			
Loss from operations	<u>\$ (11,514,393)</u>	<u>\$ (10,336,923)</u>	<u>\$ (13,609,051)</u>
Adjustments reconciling loss from operations to net cash used in operating activities:			
Depreciation	6,317,201	6,396,752	6,345,303
Noncapital payments to subrecipient	-	-	15,249,030
Noncapital payments to other governments	-	-	1,885,588
Noncapital deferred revenue	2,111	2,111	-
Pension liability adjustment expense	191,205	-	-
(Increase) decrease in assets:			
Accounts receivable	(54,304)	(708,714)	(54,758)
Prepaid expenses	99,653	(32,504)	(53,735)
Deferred asset	-	-	52,783
Increase (decrease) in liabilities:			
Accounts payable	2,080,641	59,672	(8,167,332)
Retainage payable	534,097	-	-
Due to other governments	-	-	(1,885,588)
Deferred revenue	4,225	99,837	(100,468)
Accrued salaries	11,223	10,218	4,334
Accrued compensated absences	18,881	17,531	19,246
Customer deposits	(900)	150,000	-
Total adjustments	<u>9,204,033</u>	<u>5,994,903</u>	<u>13,294,403</u>
Net cash used in operating activities	<u><u>\$ (2,310,360)</u></u>	<u><u>\$ (4,342,020)</u></u>	<u><u>\$ (314,648)</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, 2015, 2014, AND 2013

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 two to 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
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015, 2014, AND 2013

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, 2015, 2014, and 2013 the Authority's share in the pooled investment as a state agency consists of cash and totals \$744,084, \$737,750, and \$737,750, 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 estimates an allowance for doubtful accounts.

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.

Capital Assets

Capital assets 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 capital assets 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
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015, 2014, AND 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

	<u>Useful Life</u>	<u>Capitalization Threshold</u>
Machinery 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.

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
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015, 2014, AND 2013

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 Farm Credit Bank 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, 2015, the carrying amount of the Authority's deposits (including restricted deposits) was \$19,076,753 and the bank balances totaled \$19,121,253. 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, 2015, 2014, AND 2013

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Deposits (continued)

As of June 30, 2015, 2014, and 2013, restricted cash and cash equivalents consist of the following:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current:			
Restricted for customer deposits	<u>\$ 150,000</u>	<u>\$ 150,900</u>	<u>\$ 900</u>

Investments

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
U.S. Government securities and agencies	<u>\$ 49,552,096</u>	<u>\$ 80,954,469</u>	<u>\$ 82,380,255</u>

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current Assets:			
Investments in U.S. Government securities and agencies	\$ 49,552,096	\$ 23,812,339	\$ 57,442,555
Non-Current Assets			
Investments in U.S. Government securities and agencies	<u>-</u>	<u>57,142,130</u>	<u>24,937,700</u>
Total investments	<u>\$ 49,552,096</u>	<u>\$ 80,954,469</u>	<u>\$ 82,380,255</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 \$11,421,493, 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, 2015. 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
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015, 2014, AND 2013

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>2015</u>	<u>2014</u>	<u>2013</u>
Mutual funds	AAA	\$ 11,421,493	\$ 2,636,170	\$ 898,860
U.S. Government securities and agencies	AA+	<u>49,552,096</u>	<u>80,954,469</u>	<u>82,380,255</u>
Total		<u>\$ 60,973,589</u>	<u>\$ 83,590,639</u>	<u>\$ 83,279,115</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, 2015 are as follows:

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Investment Maturities</u>
		<u>in less than one year</u>
Mutual funds	\$ 11,421,493	\$ 11,421,493
U.S. Government securities and agencies	<u>49,552,096</u>	<u>49,552,096</u>
	<u>\$ 60,973,589</u>	<u>\$ 60,973,589</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, 2015, 2014, AND 2013

NOTE 3: INVESTMENT IN LEASE

On March 26, 2015, the Authority purchased 114.23 acres of land and facilities and equipment thereon for a total of \$32 million, which constitutes the Guaranteed MSPA Acquisition Reimbursement. In a simultaneous transaction, the Authority entered into a forty year direct financing capital lease agreement with a limited liability company (Company) for this property. Under the terms of the agreement, the Company initially provided \$10 million as a cash contribution toward the purchase price of the property. It is the intent of the agreement that, after proposed legislation is enacted that will exempt the Authority from having to offer the leased property to other state agencies before granting the Company a purchase option, the Company will pay the Authority an additional \$6 million of the Guaranteed MSPA Acquisition Reimbursement.

The lease agreement terms require monthly principal and interest payments of \$84,784.46 beginning March 26, 2015 through February 26, 2035, at 2.5% annum. In addition, the Company shall pay an additional rent of \$1,000 (which represents an administrative fee) per month for the forty year lease period.

Per the agreement, during the lease term, the Company shall have the right to purchase the property by providing the Authority ninety days written notice and paying any remaining balance on the Guaranteed MSPA Acquisition Cost Reimbursement plus \$10,000 and reasonable costs incurred by the Authority.

The following is a summary of the future minimum lease payments receivable as of June 30, 2015:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 629,759	\$ 387,655	\$ 1,017,414
2017	645,684	371,730	1,017,414
2018	662,012	355,402	1,017,414
2019	678,754	338,660	1,017,414
2020	695,918	321,496	1,017,414
2021-2055	12,481,424	2,440,638	14,922,062
	<u>\$ 15,793,551</u>	<u>\$ 4,215,581</u>	<u>\$ 20,009,132</u>

NOTE 4: ACCOUNTS RECEIVABLE

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

	2015	2014	2013
Accounts receivable from customers	\$ 2,569,559	\$ 2,515,255	\$ 1,806,541
Less: allowance for doubtful accounts	(1,048,590)	(1,048,590)	(1,048,590)
Accounts receivable, net	<u>\$ 1,520,969</u>	<u>\$ 1,466,665</u>	<u>\$ 757,951</u>

The Authority recorded no bad debt expense for the fiscal years ended June 30, 2015, 2014, and 2013.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015, 2014, AND 2013

NOTE 5: DUE FROM OTHER STATE AGENCIES

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

	2015	2014	2013
MEMA - FEMA Hurricane Katrina projects	\$ 3,325,226	\$ 1,087,699	\$ 7,776,326
MEMA - FEMA Hurricane Gustav projects	127,106	635,777	635,777
MDA - HUD/CDBG Port restoration projects	19,411,479	5,397,264	11,613,895
MDOT - Multimodal Port Grant	-	-	359,827
DFA - Funds 3934 and 3973 transfers	-	-	436
	<u>\$ 22,863,811</u>	<u>\$ 7,120,740</u>	<u>\$ 20,386,261</u>

NOTE 6: DUE FROM OTHER GOVERNMENTS

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

	2015	2014	2013
Harrison County Tax Collector - Ad Valorem Taxes	\$ 19,217	\$ 18,740	\$ 19,472
FEMA - Homeland Security Grant Project	-	-	24,975
	<u>\$ 19,217</u>	<u>\$ 18,740</u>	<u>\$ 44,447</u>

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015, 2014, AND 2013

NOTE 7: CAPITAL ASSETS

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

For the fiscal year ended June 30, 2015

	Balance July 1, 2014	Additions	Disposals	Transfers	Balance June 30, 2015
Land	\$ 125,392,044	\$ -	\$ -	\$ -	\$ 125,392,044
Buildings	33,811,232	-	-	-	33,811,232
Machinery and equipment	9,159,635	7,249	-	305,955	9,472,839
Land improvements	30,264,982	-	-	6,352,226	36,617,208
Infrastructure	124,636,057	6,439,402	-	25,192,162	156,267,621
Construction in progress	36,087,382	92,602,539	(362,385)	(31,850,343)	96,477,193
Total capital assets	359,351,332	99,049,190	(362,385)	-	458,038,137
Less: accumulated depreciation for:					
Buildings	(4,641,794)	(699,814)	-	-	(5,341,608)
Machinery and equipment	(3,455,780)	(599,076)	-	-	(4,054,856)
Land improvements	(15,097,755)	(1,158,328)	-	-	(16,256,083)
Infrastructure	(52,530,453)	(3,859,983)	-	-	(56,390,436)
Total accumulated depreciation	(75,725,782)	(6,317,201)	-	-	(82,042,983)
Net capital assets	\$ 283,625,550	\$ 92,731,989	\$ (362,385)	\$ -	\$ 375,995,154

Construction in progress at June 30, 2015 is primarily composed of construction costs for a warehouse, west pier site work, ilmenite facility, and wharf upgrades. For the year ended June 30, 2015, there was no capitalizable interest incurred on outstanding debt during the construction period.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
(AN AGENCY OF THE STATE OF MISSISSIPPI)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015, 2014, AND 2013

NOTE 7: CAPITAL ASSETS (Continued)

For the fiscal year ended June 30, 2014

	Balance July 1, 2013	Additions	Disposals	Transfers	Balance June 30, 2014
Land	\$ 65,970,082	\$ -	\$ -	\$ 59,421,962	\$ 125,392,044
Buildings	31,463,944	-	-	2,347,288	33,811,232
Machinery and equipment	9,180,557	59,753	(80,675)	-	9,159,635
Land improvements	30,264,982	-	-	-	30,264,982
Infrastructure	124,636,057	-	-	-	124,636,057
Construction in progress	61,486,682	36,373,120	(3,170)	(61,769,250)	36,087,382
Total capital assets	<u>323,002,304</u>	<u>36,432,873</u>	<u>(83,845)</u>	<u>-</u>	<u>359,351,332</u>
Less: accumulated depreciation for:					
Buildings	(3,957,629)	(684,165)	-	-	(4,641,794)
Machinery and equipment	(2,948,768)	(581,311)	74,299	-	(3,455,780)
Land improvements	(13,887,988)	(1,209,767)	-	-	(15,097,755)
Infrastructure	(48,608,944)	(3,921,509)	-	-	(52,530,453)
Total accumulated depreciation	<u>(69,403,329)</u>	<u>(6,396,752)</u>	<u>74,299</u>	<u>-</u>	<u>(75,725,782)</u>
Net capital assets	<u>\$ 253,598,975</u>	<u>\$ 30,036,121</u>	<u>\$ (9,546)</u>	<u>\$ -</u>	<u>\$ 283,625,550</u>

Construction in progress at June 30, 2014 is primarily composed of construction costs for shore protection, the shed 50 railroad dock, ilmenite facility, and wharf upgrades. For the year ended June 30, 2014, there was no capitalizable interest incurred on outstanding debt during the construction period.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
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NOTE 7: CAPITAL ASSETS (Continued)

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	<u>262,514,813</u>	<u>60,756,927</u>	<u>(269,436)</u>	<u>-</u>	<u>323,002,304</u>
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	<u>(44,665,131)</u>	<u>(3,943,813)</u>	<u>-</u>	<u>-</u>	<u>(48,608,944)</u>
Total accumulated depreciation	<u>(63,066,255)</u>	<u>(6,345,303)</u>	<u>8,229</u>	<u>-</u>	<u>(69,403,329)</u>
Net capital assets	<u>\$ 199,448,558</u>	<u>\$ 54,411,624</u>	<u>\$ (261,207)</u>	<u>\$ -</u>	<u>\$ 253,598,975</u>

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.

NOTE 8: UNEARNED REVENUE

As of June 30, unearned revenue includes the following:

	2015	2014	2013
Point Sur dockage	\$ 4,167	\$ -	\$ -
Chemours (f/k/a Dupont)	102,427	100,291	-
Cellular South	1,690	1,657	-
RJ Young	<u>3,518</u>	<u>5,629</u>	<u>7,740</u>
	<u>\$ 111,802</u>	<u>\$ 107,577</u>	<u>\$ 7,740</u>

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NOTE 8: UNEARNED REVENUE (Continued)

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.

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 balance sheets.

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

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, 2015

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at July 1, 2014	Principal Payments	Balance at June 30, 2015
2009C	\$ 25,240,000	4/2/2009	9/1/2018	1.44-4.65%	\$ 14,205,000	\$ (2,615,000)	\$ 11,590,000
Less: current maturities included in current liabilities					(2,615,000)		(2,715,000)
Bonds payable, net of current portion					\$ 11,590,000		\$ 8,875,000

For the fiscal year ended June 30, 2014

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at July 1, 2013	Principal Payments	Balance at June 30, 2014
2009C	\$ 25,240,000	4/2/2009	9/1/2018	1.44-4.65%	\$ 16,730,000	\$ (2,525,000)	\$ 14,205,000
Less: current maturities included in current liabilities					(2,525,000)		(2,615,000)
Bonds payable, net of current portion					\$ 14,205,000		\$ 11,590,000

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NOTE 10: BONDS PAYABLE (Continued)

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

The Authority's future principal and interest requirements related to the bonds payable at June 30, 2015 are as follows:

Year	Principal	Interest	Total
2016	\$ 2,715,000	\$ 454,253	\$ 3,169,253
2017	2,830,000	340,523	3,170,523
2018	2,950,000	212,506	3,162,506
2019	3,095,000	71,959	3,166,959
	<u>\$ 11,590,000</u>	<u>\$ 1,079,241</u>	<u>\$ 12,669,241</u>

Interest incurred on bonds payable totaled \$525,158, \$622,955, and \$815,243 for fiscal years ended June 30, 2015, 2014, and 2013, respectively.

NOTE 11: COMPENSATED ABSENCES

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

	Beginning Balance	Earned	Used	Ending Balance	Due within 12 months
2015	<u>\$ 241,416</u>	<u>\$ 183,964</u>	<u>\$(165,083)</u>	<u>\$ 260,297</u>	<u>\$ 27,341</u>
2014	<u>\$ 223,885</u>	<u>\$ 206,339</u>	<u>\$(188,808)</u>	<u>\$ 241,416</u>	<u>\$ 22,656</u>
2013	<u>\$ 204,639</u>	<u>\$ 189,356</u>	<u>\$(170,110)</u>	<u>\$ 223,885</u>	<u>\$ 17,688</u>

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NOTE 12: LEASING ARRANGEMENTS

Substantially all of the Authority's capital assets 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 \$9,117,093, \$9,326,980, and \$8,944,567 for 2015, 2014, and 2013, respectively. The leases to gaming operations include contingent rentals of \$6,324,518, \$6,518,781, and \$5,996,030 for 2015, 2014, and 2013, 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, 2015, not including contingent rentals, consumer price index adjustments, or thruput charges:

<u>Year</u>	<u>Amount</u>
2016	\$ 4,216,547
2017	6,006,547
2018	5,974,547
2019	5,974,547
2020	5,974,547
2021 - 2043	<u>37,768,937</u>
Total	<u><u>\$ 65,915,672</u></u>

Gaming Lease

Effective October 18, 2013, the Authority entered into an amended and restated lease agreement with its gaming lessee. The terms of the lease agreement include a ten year primary term, expiring on June 30, 2023, with two five year renewal options. Also included in the lease terms is an additional percentage rental abatement that reduces the 3% non-gaming additional percentage rental by 35% (\$16,017,004 as of June 30, 2015) of the total capitalized costs expended (\$47,808,243 as of June 30, 2015) by the lessee in connection with its hotel renovation and restoration (hotel development assistance cap amount) and \$33,333.33 monthly base (\$700,000 as of June 30, 2015). The abatement expires when the hotel development assistance cap amount is met or at the end of the second five year renewal term, July 1, 2033, whichever occurs first. During the years ended June 30, 2015 and 2014, the Authority abated \$415,880 and \$266,667, respectively, in additional percentage rental related to non-gaming activities. From inception of the amended and restated lease agreement through June 30, 2015, the total abated amount is \$682,547.

NOTE 13: RETIREMENT PLAN

The Governmental Accounting Standards Board (GASB) Statement No. 68 – Accounting and Financial Reporting for Pensions has been implemented for the year ended June 30, 2015. Beginning net position has been adjusted for the cumulative effect of implementing the change in accounting principle, see Note 17 for further information.

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NOTE 13: RETIREMENT PLAN (Continued)

Plan Description

The Authority's employees are provided pensions through the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Mississippi's Public Employees' Retirement System's Board of Trustees. 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.

Benefits Provided

PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who become members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2 percent of their average compensation for each year of credited service up to and including 30 years (25 years for those who became members before July 1, 2011) plus 2.5 percent for each additional year of credited service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of credited service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. Benefit provisions are established by Section 25-11-1 et seq., Mississippi Code Ann. (1972) and may be amended only by the State Legislature.

A Cost-of-Living Adjustment (COLA) is made to eligible retirees and beneficiaries. The COLA is equal to 3 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3 percent compounded for each fiscal year thereafter.

Contributions

The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The adequacy of these rates is assessed annually by actuarial valuation. 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, 2015, 2014, and 2013, the Authority's contribution rates were 15.75%, 14.26%, and 12.93% of annual covered payroll, respectively. The Authority's contributions to PERS for the years ended June 30, 2015, 2014, and 2013 were \$362,433, \$357,420, and \$300,888, respectively, equal to the required contributions for each year.

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NOTE 13: RETIREMENT PLAN (Continued)

Pension Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

At June 30, 2015, the Authority recognized \$4,430,431 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions relative to the projected contributions of all participating members, actuarially determined. At June 30, 2014, the Authority's proportion was 0.036465 percent, which was an increase of 0.002568 from its proportion measured as of June 30, 2013 (.033897 percent).

For the year ended June 30, 2015, the Authority recognized expense of \$191,205. In addition, the Authority reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 50,829	\$ -
Net difference between projected and actual earnings on Plan investments	-	513,779
Authority contributions subsequent to the measurement date	362,433	-
Total	<u>\$ 413,262</u>	<u>\$ 513,779</u>

The Authority's contributions subsequent to the measurement date, \$362,433, will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year	Amount
2016	\$ (110,161)
2017	(110,161)
2018	(114,183)
2019	(128,445)
	<u>\$ (462,950)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.0 percent, net of investment expense and inflation
Projected salary increases	4.5 - 20.0 percent, including inflation
Inflation	3.5 percent

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NOTE 13: RETIREMENT PLAN (Continued)

Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2012. As a result of the actuarial experience study, the expectation of life after disability was adjusted in the June 30, 2014 actuarial valuation to more closely reflect actual experience. Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2025, set forward two years for males.

The long-term expected rate of return on investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are as follows:

Asset Class	Target Allocation %	Long-term Expected Real Rate of Return %
U.S. Broad	34.00%	5.20%
International equities	19.00%	5.00%
Emerging markets equities	8.00%	5.45%
Fixed income	20.00%	0.25%
Real assets	10.00%	4.00%
Private equities	8.00%	6.15%
Cash	1.00%	-0.50%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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NOTE 13: RETIREMENT PLAN (Continued)

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

	<u>Discount Rate</u>	<u>Authority's Proportionate Share of Net Pension Liability</u>
1% decrease	7.00%	\$6,040,000
Current discount rate	8.00%	\$4,430,431
1% increase	9.00%	\$3,087,813

Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued PERS financial report.

NOTE 14: 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.

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. Effective September 9, 2014 the lease was renewed for a period of two years expiring on September 9, 2016. Annual rent under this lease agreement is \$173,187. Rent expense for the years ended June 30, 2015, 2014 and 2013 total \$173,187, \$173,187, and \$172,110 respectively. Rent expenses are included in the statements of revenues, expenses, and changes in net position as contractual services.

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NOTE 15: LEASES (Continued)

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, 2015 totals \$5,949. 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, 2015 totals \$1,048. Rent expenses are included in the statements of revenues, expenses, and changes in net position as contractual services.

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, 2015 totals \$13,200. 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, 2015 are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 193,384
2017	50,997
Total	<u>\$ 244,381</u>

NOTE 16: ECONOMIC DEPENDENCY

The Authority's one gaming operations lessee accounted for approximately 53% of the operating revenues in fiscal year ended June 30, 2015, and 2014, and 54% of the operating revenues in fiscal years ended June 30, 2013.

NOTE 17: IMPLEMENTATION OF NEW ACCOUNTING STANDARD GASB NO. 68

Net position at the beginning of fiscal year 2015 has been restated for the current year implementation of GASB 68 requiring the recording of net pension liability, see Note 13 for further information. It is not practical for the Authority to determine the amounts of all applicable deferred inflows and outflows related to pensions in fiscal years ended June 30, 2014 and 2013. Therefore, the presentation of the fiscal years ended June 30, 2014 and 2013 do not include restatements related to GASB No. 68. The implementation of GASB No. 68 resulted in a reduction of beginning net position of \$4,339,743.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
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NOTE 18: COMMITMENTS AND CONTINGENCIES

Commitments

Construction in Progress

Construction in progress at June 30, 2015 is primarily composed of construction costs for a warehouse, west pier site work, ilmenite facility, and wharf upgrades. The total amount of the construction contracts in progress as of June 30, 2015 is \$279,407,244, of which \$96,477,193 in construction costs has been incurred through June 30, 2015. Of the construction costs incurred as of June 30, 2015 the Authority remains obligated to pay \$16,795,705 from unrestricted cash. The Authority is further obligated to pay the remaining amount of \$182,930,051 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.

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 implementing the Corrective Action Plan.

Until the "No Further Action" letter from MDEQ is received, \$450,000 stays in escrow. 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 sheets and has a balance of \$450,000 at June 30, 2015, 2014, and 2013. See additional information in Note 9.

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.

Federal Grants

In the normal course of operations and as a result of the destruction from Hurricane Katrina, the Authority has received grant funds from various Federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds.

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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 EVENTS

The Authority has evaluated events occurring subsequent to year end through October 26, 2015, which is the date the financial statements were available to be issued. The following were identified as subsequent events:

A contract entered into subsequent to year end totals \$12,966,933. It is a contract for the ground storage tank to be funded with federal grants and Authority funds.

Change orders, amendments, and approvals of tasks orders subsequent to year end total \$7,095,474. These relate to various ongoing construction projects and are to be funded with federal grants and Authority funds.

SUPPLEMENTAL INFORMATION

**SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM PLAN
LAST FISCAL YEAR**

	<u>2014</u>
Authority's proportion of the net pension liability	0.0365%
Authority's proportionate share of the net pension liability	\$4,430,431
Authority's covered employee payroll	\$2,228,329
Authority's proportionate share of the net pension liability as a percentage of covered employee payroll	198.82%
Plan fiduciary net position as a percentage of total pension liability	67.21%

See independent auditors' report.

**SCHEDULE OF AUTHORITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM PLAN
LAST FISCAL YEAR**

	<u>2014</u>
Contractually required contribution	\$ 350,941
Contributions in relation to contractually required contribution	<u>(350,941)</u>
Contribution deficiency (excess)	<u><u>-</u></u>
Authority's covered employee payroll	\$2,228,329
Contributions as a percentage of covered employee payroll	15.75%

See independent auditors' report.

**MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 1: CHANGES OF ASSUMPTIONS

In 2013 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2013. In 2013, withdrawal rates, pre-retirement mortality rates, disability rates and retirement rates were adjusted to more closely reflect actual experience. In 2013, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

NOTE 2: METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	5 year smoothed market
Price inflation	3.50 percent
Salary increase	4.50 percent to 20.00 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



ALEXANDER | VAN LOON | SLOAN | LEVENS | FAVRE, PLLC
Certified Public Accountants & Business Consultants

AVL WEALTHCARE, LLC
Wealth Management

**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**

October 26, 2015

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, 2015, and the related notes to the financial statements and have issued our report thereon dated October 26, 2015.

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.

To the Board of Commissioners
Mississippi State Port Authority at Gulfport
October 26, 2015

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



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

October 26, 2015

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, 2015. 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, 2015.

To the Board of Commissioners
Mississippi State Port Authority at Gulfport
October 26, 2015


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.

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, 2015**

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			
Hurricane Katrina	97.036	PW8908	\$ 20,246,058
		PW9398	21,931
<i>Total U.S. Department of Homeland Security</i>			<u>20,267,989</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	75,278,881
Katrina Supplemental	14.228	R-103-936-01-KED	3,033
			<u>75,281,914</u>
<i>Total U.S. Department of Housing and Urban Development</i>			<u>75,281,914</u>
Total Expenditures of Federal Awards			<u><u>\$ 95,549,903</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, 2015

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 position for the year ended June 30, 2015:

Total expenditures of federal awards	\$ 95,549,903
Project worksheets (PW) deobligations in current year for federal expenditures in prior years	(233,608)
Total federal revenues	<u>\$ 95,316,295</u>
Non-operating revenues (expenses)	
Transfers in from other State agencies	<u>\$ 95,316,295</u>
Total federal revenues	<u>\$ 95,316,295</u>

NOTE 3- UNEXPENDED GRANT APPROPRIATIONS

The following are unexpended grant awards at June 30, 2015:

Federal agency	FEMA	HUD
Total awards at June 30, 2015	\$ 72,927,311	\$ 590,383,175
Total expenditures at June 30, 2015	(72,917,870)	(255,310,674)
Unexpended at June 30, 2015	<u>\$ 9,441</u>	<u>\$ 335,072,501</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, 2015**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	Unmodified
Internal Control over financial reporting:	
Material Weaknesses identified?	No
Significant Deficiencies identified that are not considered to be material weaknesses?	None reported
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?	None reported
Type of auditors’ report issued on compliance for major programs	Unmodified
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, 2015**

Section II – Financial Statement Findings

None noted

Section III – Federal Award Findings and Questioned Costs

None noted