



Gulfport-Biloxi Regional Airport Authority
Annual Financial Report

For the Years Ended September 30, 2018 and 2017

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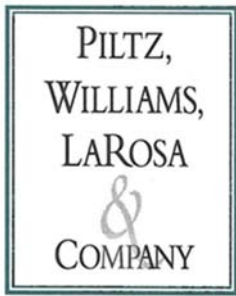
Gulfport–Biloxi Regional Airport Authority
Gulfport, Mississippi

Financial Statements

September 30, 2018 and 2017

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Independent Auditors' Report

Commissioners of the Airport Authority
Gulfport–Biloxi Regional Airport Authority
Gulfport, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of Gulfport–Biloxi Regional Airport Authority as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Gulfport-Biloxi Regional Airport 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 opinions 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 auditor's 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 auditor considers 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gulfport–Biloxi Regional Airport Authority as of September 30, 2018 and 2017, and the changes in its financial position, and its cash flows thereof for the years then ended in conformity 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, pension system supplementary information and budgetary comparison information in Section I pages 4 through 11 and Section III pages 32-36 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

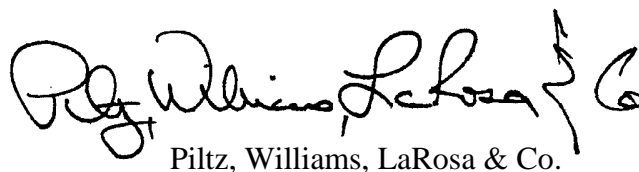
Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements found in Section II that collectively comprise the Gulfport–Biloxi Regional Airport Authority’s financial statements. The Capital Projects Fund – Statements of Revenues & Expenditures found in Section III page 37 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards and Schedule of Passenger Facility Charges also found in Section III are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and are also not a required part of the basic financial statements.

The Capital Projects Fund – Statements of Revenues & Expenditures and Schedule of Expenditures of Federal Awards and Schedule of Passenger Facility Charges are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2019, on our consideration of the Gulfport–Biloxi Regional Airport Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Gulfport–Biloxi Regional Airport Authority's internal control over financial reporting and compliance.



Piltz, Williams, LaRosa & Co.

Biloxi, Mississippi
February 6, 2019

Section I

Management's Discussion and Analysis

Management’s Discussion and Analysis

Our discussion and analysis of the Airport’s financial performance provides an overview of the Airport’s financial activities for the fiscal year ended September 30, 2018. Please read it in conjunction with the Airport’s financial statements, which are found in Section II.

Using This Annual Report

This annual report consists of a series of financial statements. The Balance Sheets, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows provide information about the activities of the Airport similar to that of a for profit private-sector business enterprise with the appropriation and use of economic resources as the measurement focus. The notes to financial statements provide detailed support to individual balances and classes of transactions found in the various statements. The required and other supplemental information (See Section III) provides information about the Airport’s operating activities as compared to its budget, as well as certain other schedules required by *Government Auditing Standards*.

The Balance Sheet reports the Airport’s net position. You can think of the Airport’s net position (the difference between assets and liabilities), as one way to measure the Airport’s financial health, or financial position. Net position is divided into the following three basic categories: net investment in capital assets; net position restricted for debt covenant and other purposes, and net position unrestricted and available for spending. Over time, increases or decreases in the Airport’s net position are one indicator of whether its financial health is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Position measures the annual change in the net position displayed on the Balance Sheet. The Statements of Cash Flows converts all economic resources and uses to cash and displays them into their basic categories of operating; non-capital financing; capital financing and investing activities.

Terminology

FAA – Federal Aviation Administration

AIP – Federal Airport Improvement Program that provides entitlement and discretionary grants for capital improvements to the Airport

PFC – Passenger Facility Charges are assessments of \$4.50 per enplaning passenger to fund capital improvements to the Airport

GA – General Aviation area of the Airport property

CFC – Customer Facility Charge of \$3.00 for each car rental customer used to fund construction (\$2.00) and operations (\$1.00) of the rental car service facility

Gulfport–Biloxi Regional Airport Authority
Financial Statements
September 30, 2018

Financial Summaries and Comparisons

The following are summary presentations of the Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position for the years ended September 30, 2018 and 2017:

Balance Sheets
(in Thousands)

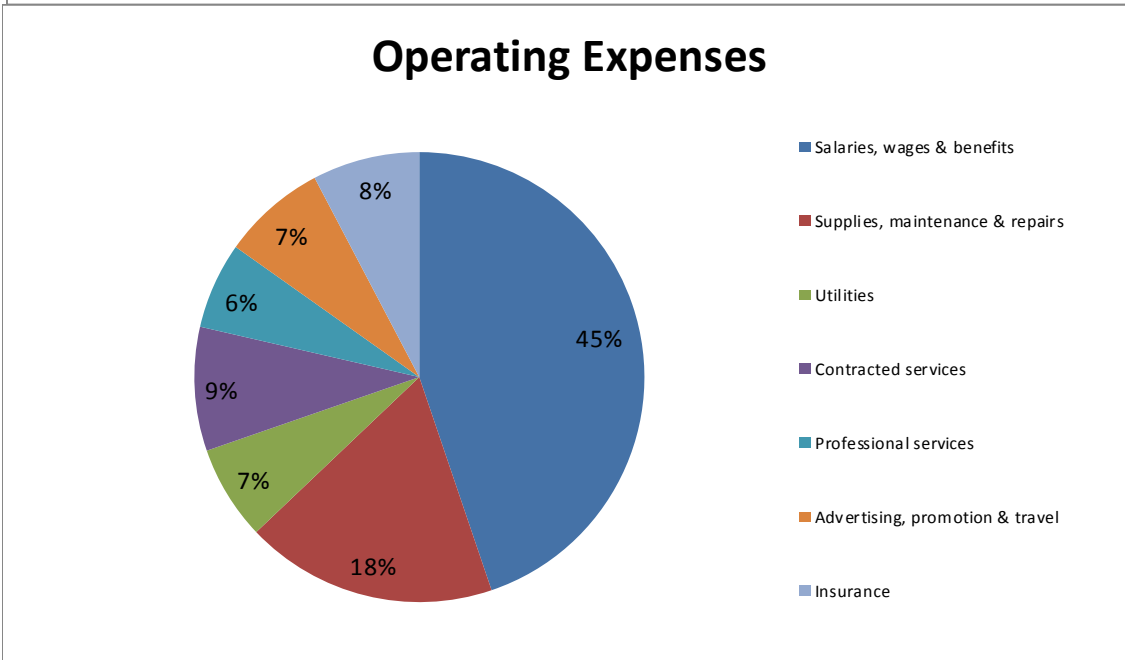
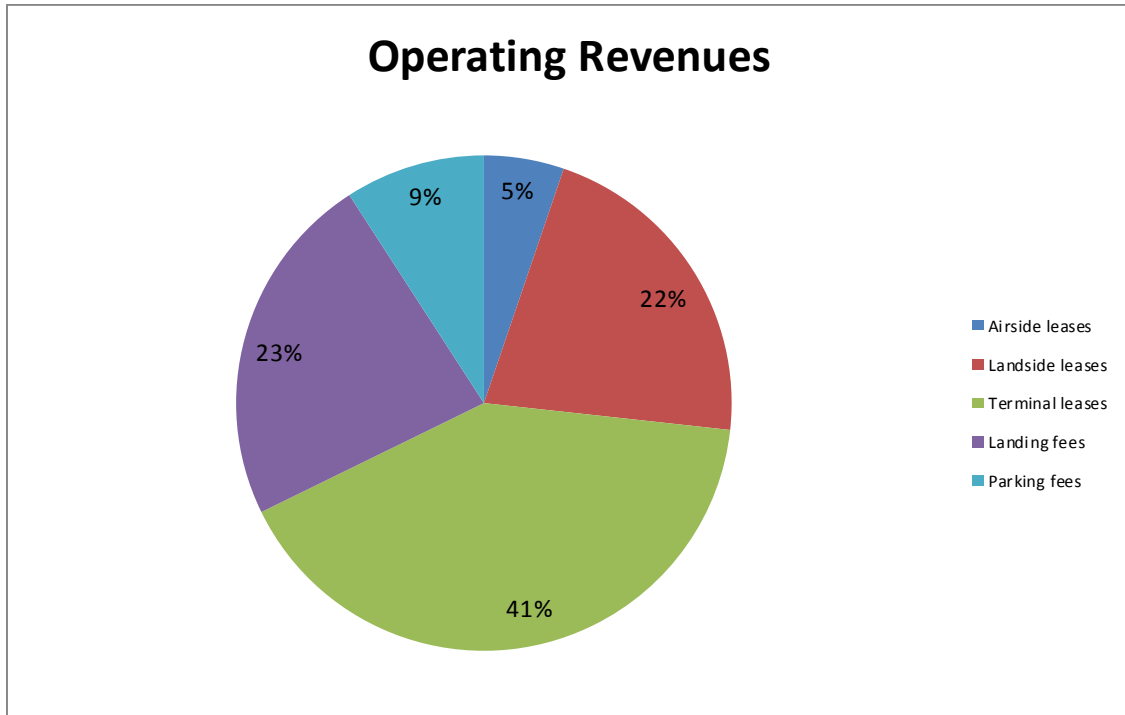
	September 30,	
	2018	2017
Current assets	\$ 13,018	\$ 11,817
Restricted assets	3,430	3,045
Capital assets	215,923	221,816
Deferred outflows	1,021	1,605
Total assets and deferred outflows	<u>233,392</u>	<u>238,283</u>
Current liabilities from current assets	2,502	2,041
Current liabilities from restricted assets	1,670	1,620
Noncurrent liabilities	24,990	27,007
Deferred inflows	123	16
Total liabilities and deferred inflows	<u>29,285</u>	<u>30,684</u>
Net position	<u>\$ 204,107</u>	<u>\$ 207,599</u>
Summary of net position		
Net investment in capital assets	\$ 196,966	\$ 201,271
Restricted	3,430	3,045
Unrestricted and spendable	3,711	3,283
Totals	<u>\$ 204,107</u>	<u>\$ 207,599</u>

Statements of Revenues, Expenses & Changes in Net Position
(in Thousands)

	Year Ended September 30,	
	2018	2017
Operating revenues	\$ 11,324	\$ 10,763
Operating expenses	(21,610)	(21,166)
Non-operating revenues	56	82
Non-operating expenses	(680)	(730)
Capital grants, PFCs and CFCs	7,418	11,053
Increase (decrease) in net position	<u>\$ (3,492)</u>	<u>\$ 2</u>

Gulfport–Biloxi Regional Airport Authority
Financial Statements
September 30, 2018

The following pie charts represent actual operating revenues (excluding fire and rescue services) and operating expenses (excluding depreciation and fire and rescue services) by category for the year ended September 30, 2018.



Financial Statements

September 30, 2018

Financial Highlights

- The Airport’s net position had a decrease of \$3.5 million as compared to 2017 which had a minor increase of \$2,447. Unrestricted net position, which represents net position available for spending, increased from \$3.3 million to \$3.8 million at the end of 2018.
- Operating revenues increased by \$561,000 or 5.2% from 2017 to 2018, compared to 2017, which had a decrease of \$368,000 or 3% over 2016.
- Operating expenses increased by \$444,000 or 2.1%, primarily due to the GASB 68 pension liability expense, as compared to 2017, which had an increase of \$118,000 or 1% over 2016.
- Operating expenses, excluding GASB 68 pension liability expense, depreciation and amortization expenses, and fire and rescue services were approximately \$7 million in 2018 compared to \$7.2 million in 2017.
- Operating grants and other income decreased by \$29,000, compared to 2017, which had a decrease of \$32,000 over 2016.
- The Airport had capital grants, PFC and CFC revenues of \$7.4 million, which was a decrease of \$3.6 million, or 33% over 2017. In 2017, capital grants, PFC and PFC revenues were \$11 million, which was an increase of \$3.2 million, or 41% over 2016.
- The bond rate covenant achieved was 189% for fiscal 2018. Please refer to Note F to the audited financial statements for further discussion on the bond rate covenant.

Budgetary Highlights

Over the course of the year, the Airport revises the budget generally once or twice to react to changing financial conditions such as general increases and decreases in operating revenues and expenses, but generally the more significant budget amendments center around capital expenditures as federal grants and other capital financing sources become available. The following table summarizes the year 2018 budgets and comparative results.

**Year 2018 Budget to Actual Comparison
(in Thousands)**

	Original Budget	Amended Budget	Actual Results	Variance
Operating revenues	\$ 8,448	\$ 8,448	\$ 8,710	\$ 262
Operating expenses	(7,492)	(7,492)	(6,890)	602
Operating surplus	956	956	1,820	864
Other income	1	1	3	2
Capital grants, PFCs and CFCs	15,545	6,947	7,418	471
Debt service	(2,272)	(2,272)	(2,264)	8
Capital expenditures	(15,946)	(5,133)	(5,832)	(699)
Excess (deficiency)	<u>\$ (1,716)</u>	<u>\$ 499</u>	<u>\$ 1,145</u>	<u>\$ 646</u>

Gulfport–Biloxi Regional Airport Authority
Financial Statements
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Generally, operating revenues and expenses were consistent with budgeted amounts. The more significant variances centered on capital grants and construction budgets. Capital expenditures and the related federal and state grants typically have budget variances caused by the fact that when projects are first budgeted, they are generally budgeted 100%, but rarely are they completed by the end of the fiscal year. All of the projects at the end of 2018 were on updated schedules and these budget amounts will carry over to 2019 when the projects are expected to be completed. Please see the analysis of the year 2019 capital budget under Capital Assets.

Capital Asset and Debt Administration

Capital Assets

At the end of 2018, the Airport had \$216 million invested in Airport facilities, infrastructure and equipment. This amount represents a net decrease (including additions and depreciation deductions) of \$5.9 million or about 2.7% over 2017. The Airport had a net decrease of \$2 million or about 1% in 2017. The majority of the Airport’s capital expenditures are funded with Federal AIP grants, State Airport Development grants, PFCs, CFCs, and other local funds. The following is a summary presentation of actual capital expenditures and related funding sources for 2018 and 2017 and the Airport’s capital budget summary for 2019:

	Budgeted 2019	Actual 2018	Actual 2017
Capital expenditures			
Runway, taxiway, ramp and apron expansion	\$ -	\$ 369	\$ 6,027
General aviation and air cargo	-	774	39
Noise compatibility	5,899	1,828	1,904
Long range planning	65	202	201
Land acquisition	-	-	1
Terminal improvements	1,322	939	163
Other capital expenditures	752	1,720	1,113
Totals	<u>\$ 8,038</u>	<u>\$ 5,832</u>	<u>\$ 9,448</u>
Funding sources			
Federal grants	\$ 6,498	\$ 4,958	\$ 9,146
State grants	676	466	119
PFCs (for debt service)	1,459	1,506	1,338
CFCs	554	487	449
Local funds (for debt service mostly)	(1,149)	(1,585)	(1,604)
Totals	<u>\$ 8,038</u>	<u>\$ 5,832</u>	<u>\$ 9,448</u>

Financial Statements

September 30, 2018

The Airport’s 2019 capital budget is approximately \$8 million. The capital budget for 2019 is focused primarily on Airport infrastructure projects, including the completion of several projects on the airfield, terminal equipment, as well as the continuation of the FAA’s Noise Compatibility programs.

Debt

**Bonds Payable
(In Thousands)**

	September 30,	
	2018	2017
Revenue bonds payable	<u><u>\$ 19,255</u></u>	<u><u>\$ 20,875</u></u>

Please see Note F to the financial statements for a further explanation of the transaction, including covenants, maturities, interest rate, and future debt service schedule.

Economic Factors and Next Year’s Operating Budget

The Airport anticipates 2019 passenger traffic to be slightly ahead of 2018. The Airport will continue to focus resources on retaining existing air service, providing excellence in customer service and enhancing the overall passenger experience. The Airport continues to work with community partners from the public and private sectors to build a coalition to support the development of additional air service. In the spring and summer of 2018, airlines seasonally increased frequencies providing additional options and increased connectivity for passengers.

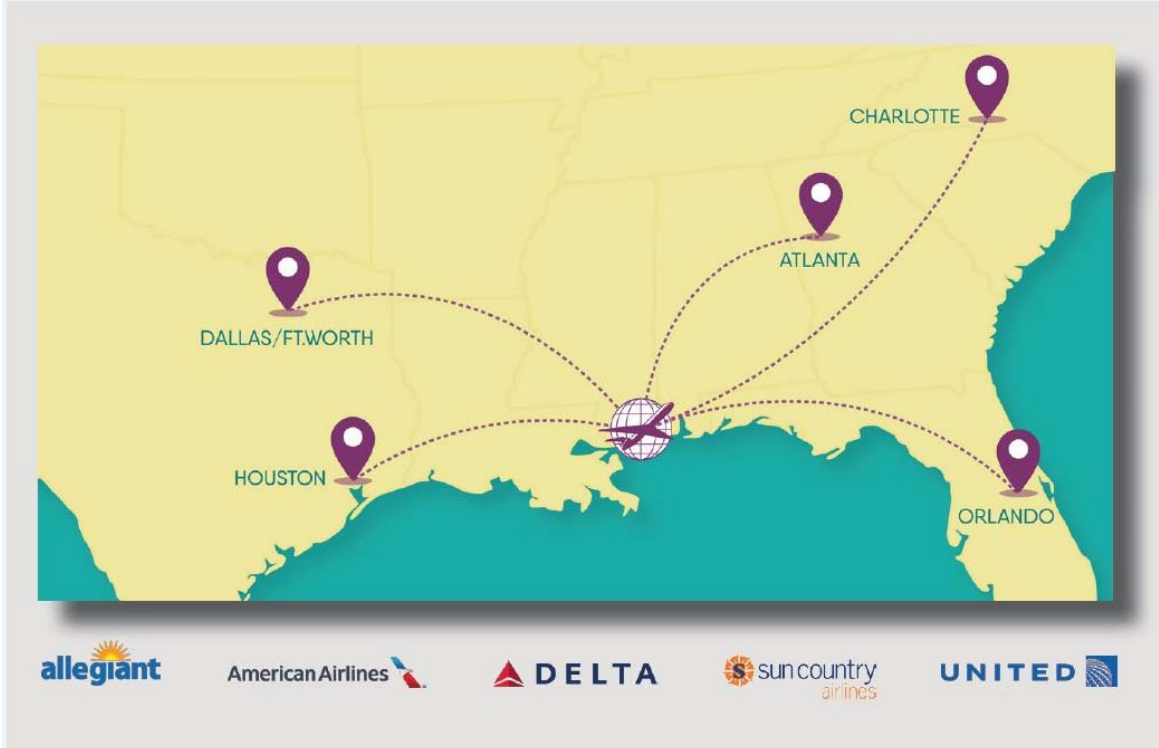
Delta offers services to its hub in Atlanta, GA. American Airlines provides service to both Charlotte, NC and Dallas, TX. United services Gulfport-Biloxi through its Houston, TX hub and Allegiant Air is offering two day a week service to/from Orlando-Sanford. Sun Country Airlines continues servicing the Airport as a gaming charter and also once again provided seasonal service to and from Minneapolis/St. Paul. Also in 2018, other airlines flew gaming charters periodically to and from various markets. Some of the top passenger markets for 2018 were Atlanta, Washington/Baltimore, Dallas/Ft. Worth, Houston, Norfolk, Charlotte, Tampa/St. Petersburg, and Minneapolis.

The Airport has 11 to 12 daily departures, serviced by American, Delta, United, Sun Country and Allegiant airlines, with approximately 1,200 daily seats available to the community. The seat share by carrier is as follows:

- Delta 48%
- United Airlines 11%
- American 23%
- Sun Country 24%
- Allegiant 3%
- Various Charters 1%

Gulfport–Biloxi Regional Airport Authority
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The Airport has five nonstop markets, represented by the following map:



Gulfport–Biloxi Regional Airport Authority
Financial Statements
September 30, 2018

The Airport's total budgeted operating expenses (excluding depreciation expense and fire & rescue services) for 2019 is \$7.3 million.

The following table is a summary of the Airport's operating budget for the fiscal year ending September 30, 2019:

Year 2019 Operating Budget Summary
(in Thousands)

Operating revenues	\$ 9,114
Operating expenses (excludes depreciation & fire and rescue services)	<u>(7,311)</u>
Operating surplus	1,803
Capital grants, PFCs and CFCs	9,187
Debt service	(2,267)
Capital expenditures	<u>(8,038)</u>
Excess (use)	<u><u>\$ 685</u></u>

Contacting the Airport's Director of Finance and Administration

This financial report is designed to provide the user with a general overview of the Airport's finances and to show the Airport's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact Leslie Bonnikson, Director of Finance and Administration at 228-863-5951 / 14035-L Airport Road, Gulfport, Mississippi 39503.

Section II

Financial Statements

Gulfport–Biloxi Regional Airport Authority
Balance Sheets

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Assets	September 30,	
	2018	2017
Current assets		
Cash and cash equivalents	\$ 9,571,115	\$ 8,225,750
Accounts receivable	1,265,382	1,265,846
Grant funds receivable	1,748,105	1,995,220
Prepaid insurance	433,634	330,308
Total current assets	13,018,236	11,817,124
Noncurrent assets		
Restricted cash and cash equivalents	3,430,327	3,045,096
Capital assets:		
Airport facilities, net of accumulated depreciation	215,923,203	221,815,607
Total assets	232,371,766	236,677,827
Deferred outflows of resources		
Unamortized loss on refunded debt	296,893	329,881
Deferred outflows on pension liability	724,085	1,275,032
Total deferred outflows of resources	1,020,978	1,604,913
Total assets and deferred outflows of resources	\$ 233,392,744	\$ 238,282,740
Liabilities		
Current liabilities payable from current assets		
Accounts payable	\$ 1,273,548	\$ 1,061,375
Accounts payable related to construction	974,543	705,382
Accrued wages and compensated absences	185,045	204,675
Unearned rent revenue	69,079	69,079
Total current liabilities payable from current assets	2,502,215	2,040,511
Current liabilities payable from restricted assets		
Revenue bonds payable, amounts due within one year	1,670,000	1,620,000
Total current liabilities payable from restricted assets	1,670,000	1,620,000
Noncurrent liabilities		
Unearned rent revenue	1,761,287	1,830,366
Revenue bonds payable	17,585,000	19,255,000
Proportionate share of collective net pension liability	5,644,141	5,922,132
Total noncurrent liabilities	24,990,428	27,007,498
Total liabilities	\$ 29,162,643	\$ 30,668,009

(Continued)

Gulfport–Biloxi Regional Airport Authority
Balance Sheets
(Continued)

	September 30,	
	2018	2017
Deferred inflows of resources		
Deferred inflows on pension liability	\$ 123,268	\$ 15,737
Total liabilities and deferred inflows of resources	29,285,911	30,683,746
 Net Position		
Net investment in capital assets	196,965,096	201,270,488
Restricted for debt service and capital outlay	3,430,327	3,045,096
Unrestricted	3,711,410	3,283,410
Total net position	204,106,833	207,598,994
Total liabilities and net position	\$ 233,392,744	\$ 238,282,740

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

Gulfport–Biloxi Regional Airport Authority
Statements of Revenues, Expenses and Changes in Net Position

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	Year Ended September 30,	
	2018	2017
Operating revenues		
Airside leases	\$ 2,951,814	\$ 2,750,809
Landside leases	1,899,571	1,774,138
Terminal leases	3,476,168	3,456,030
Landing fees	2,042,088	1,878,203
Parking fees	806,595	727,032
Operating grants and other income	148,250	177,088
Total operating revenues	11,324,486	10,763,300
Operating expenses		
Salaries and wages	2,148,462	2,154,295
Employee taxes and benefits	1,165,563	949,870
Fire and rescue service	2,489,933	2,359,500
Operating supplies, maintenance and repairs	1,254,416	1,238,796
Contracted services	658,942	726,923
Utilities	501,982	494,344
Office expense	86,011	67,302
Professional services	459,973	651,043
Advertising, promotion, training and travel	553,423	512,862
Insurance	569,948	590,779
Depreciation expense	11,721,278	11,420,615
Total operating expenses	21,609,931	21,166,329
Operating loss	(10,285,445)	(10,403,029)
Non-operating revenues (expenses)		
Interest income	55,829	25,623
Non-capital operating support from local governmental units	-	56,202
Interest expense	(680,113)	(728,938)
Total non-operating revenues (expenses)	(624,284)	(647,113)
Net loss before capital contributions	(10,909,729)	(11,050,142)
Capital grants, PFCs & CFCs	7,417,568	11,052,589
Change in net position	(3,492,161)	2,447
Total net position, beginning	207,598,994	207,596,547
Total net position, ending	\$ 204,106,833	\$ 207,598,994

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

Gulfport–Biloxi Regional Airport Authority
Statements of Cash Flows

15

	Year Ended September 30,	
	2018	2017
Cash flows from operating activities		
Cash received from Airport operations	\$ 8,640,938	\$ 8,470,482
Cash paid to suppliers for goods and services	(3,975,848)	(3,876,658)
Cash paid to and for employees	(2,953,168)	(2,951,791)
Net cash provided by operating activities	1,711,922	1,642,033
Cash flows from non-capital financing activities		
Operating grants and local subsidies	125,000	56,202
Cash flows from capital and related financing activities		
Proceeds from federal and state grants	5,670,847	11,356,086
Proceeds from PFC and CFC funds	1,993,836	1,787,427
Capital expenditures	(5,559,713)	(9,304,684)
Principal paid on bonds	(1,620,000)	(1,575,000)
Interest paid on bonds	(647,125)	(695,950)
Net cash (used for) provided by capital and related financing activities	(162,155)	1,567,879
Cash flows from investing activities		
Interest income received	55,829	25,623
Net increase in cash and cash equivalents	1,730,596	3,291,737
Cash and cash equivalents, beginning of year	11,270,846	7,979,109
Cash and cash equivalents, end of year	\$ 13,001,442	\$ 11,270,846
Summary of cash and cash equivalents, end of year		
Unrestricted	\$ 9,571,115	\$ 8,225,750
Restricted	3,430,327	3,045,096
Totals	\$ 13,001,442	\$ 11,270,846
Reconciliation of operating loss to net cash provided by operations		
Operating loss	\$ (10,285,445)	\$(10,403,029)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	11,721,278	11,420,615
Non-capital operating grants	(125,000)	(98,922)
Decrease in accounts receivable	464	234,683
Decrease (increase) in prepaid insurance	(103,326)	21,932
Increase in accounts payable and accrued expenses	192,543	378,880
Decrease in unearned rent revenue	(69,079)	(69,079)
Deferred outflows of resources on net pension expense	380,487	156,953
Net cash provided by operating activities	\$ 1,711,922	\$ 1,642,033

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

Note A – Summary of Significant Accounting Policies

The Reporting Entity – The Gulfport–Biloxi Regional Airport Authority was chartered on August 25, 1977, and assumed control of the Airport on October 1, 1977. The Authority is comprised of appointees from the local governmental units of the City of Gulfport, the City of Biloxi, and Harrison County, Mississippi.

The reporting entity consists of and includes all funds that are covered by the oversight responsibility of the Gulfport–Biloxi Regional Airport Authority. There are no funds excluded from the reporting entity, which are under the control of the Gulfport–Biloxi Regional Airport Authority. The reporting entity is not a component unit of another entity, nor does the reporting entity include any component units. However, the Airport is classified as a jointly governed organization of the City of Biloxi, City of Gulfport and Harrison County.

Significant Accounting Policies – The accounting policies of the Airport conform to generally accepted accounting principles applicable to governmental units (GAAP). The following is a summary of the more significant policies:

- 1. Basis of accounting and fund structure** – The Airport has been identified as an “enterprise fund” as described by GAAP for governmental entities. Enterprise funds utilize accounting principles in a manner similar to private business enterprises and are accounted for on a flow of economic resources measurement focus using 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 Airport are included on the balance sheets. In accordance with its bond covenants, the Airport maintains certain funds, each of which is considered a separate accounting unit. The Airport maintains Operating Funds, and Bond Covenant Funds. In addition, the Investment in Airport Facilities account group is maintained. The Airport applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, and applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

- 2. Airport facilities** – The Airport facilities, which were assumed by the Authority on October 1, 1977, are recorded at the original cost or assigned cost reported by the municipality that contributed them. Additions to the Airport facilities are recorded at cost and depreciation is recorded using the straight-line method over the estimated useful lives of the assets (buildings and airfield improvements 20-30 years and other property and equipment 3-10 years). Land and intangible assets identified as noise and navigation easements, having an indefinite useful life, are not depreciated or amortized. Repairs and maintenance, which do not substantially increase capacity or operational efficiency, are expensed as incurred. Interest costs are capitalized on debt where proceeds were used to finance the construction of assets.

Notes to Financial Statements

September 30, 2018 and 2017

(Continued)

- 3. Operating and non-operating revenues and expenses** – Operating revenues of the Airport include all revenues generated by exchange transactions entered into with any other entity (whether public or private) engaging in business on Airport property. The primary sources of operating revenue at the Airport are landing fees and terminal rentals paid by the airlines for the use of Airport facilities. Airline rental charges and fees are adjusted annually based on estimates of terminal and airfield expenses the airlines utilize. Annual landing fees and terminal rentals paid by the airlines are compared to actual expenses for the year, resulting in an annual settlement between the airlines and Airport. Operating expenses include all of the expenses necessary to operate, maintain and manage the Airport, as well as depreciation expense. Non-operating revenues include interest income. Non-operating expenses include interest expense. Capital contributions include capital financing grants from the federal and state governments, Passenger Facility Charges (PFCs) and Customer Facility Charges (CFCs). Restricted resources are applied first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.
- 4. Advertising and inventories of materials and supplies** – Advertising costs are expensed when incurred. Inventories of materials and supplies are not maintained and purchases of these items are expensed when incurred.
- 5. Lease revenues and tenant receivables** – The Airport extends credit to the various tenants who lease space and operating rights. The Airport has both short-term and long-term operating leases. The direct write-off method is used for bad debt expense. Management considers all of the remaining receivables collectible, and therefore, has not provided an allowance for doubtful accounts.
- 6. Capital contributions, grants and PFCs** – The Airport participates in Federal Aviation Administration AIP grants, State Department of Transportation Airport Development grants, and an FAA endorsed Passenger Facility Charge (PFC) Program, for many of its capital improvements. These funds are generally restricted for capital acquisition or construction.
- 7. Budget information** – The Airport maintains its accounting records using the accrual method of accounting for both financial and budgetary reporting purposes.
- 8. Cash and investments** – Cash and cash equivalents include amounts in demand deposits as well as short-term investments such as United States Treasury Bills. All investments are reported at fair value, which is determined using quoted market values with unrealized gains and losses charged or credited to investment income. Short-term investments held by the trustee generally include U.S. Treasury Bills and U.S. Government money market funds, and consequently are shown as cash and cash equivalents.
- 9. Deferred outflows and inflows of resources** – In connection with the 2014 refunding of the Series 2004 Revenue Bonds, the Airport incurred a loss (the difference between the carrying amount of the old bonds and the proceeds of the new bonds). In accordance with GASB 65 the loss is carried on the balance sheet as a deferred outflow and is being amortized over the life of the new bonds using the straight line method. Additionally, the Airport recorded deferred inflows and outflows of resources in connection with the implementation of Government Accounting Standard Board (GASB) Statement Number 68, *Accounting and Financial Reporting for Pensions*.

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
September 30, 2018 and 2017
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10. Compensated absences – The Airport has two types of compensated absences which are described as follows:

- *Vacation* – Full-time employees who work year round are granted 12 vacation days for service period up to 5 years; 18 days for 6 to 10 years; and 24 days for over 10 years of service. Employees may accrue and carryover unused vacation time from year to year. Upon termination of employment, employees are paid up to a maximum of 30 days of unused vacation days. Any excess of unused days may be applied towards days of service upon retirement under the Public Employees Retirement System.
- *Sick Leave* – Each full-time employee is entitled to 12 days of sick leave per year. However, unused sick leave is not reimbursed upon termination. It may however be applied towards days of service upon retirement under the Public Employees Retirement System.

The Airport accrues for the accumulated vacation leave up to 30 days, however inasmuch as the sick leave may not be paid upon termination, no accrual is made.

11. Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B – Deposits, Investments and Restricted Assets

Deposits

The Airport deposits funds into financial institutions selected by the Board of Commissioners in accordance with Mississippi statutes. At September 30, 2018, cash bank deposits (including restricted deposits) and cash equivalents are as follows:

	Cash in Banks		Short-Term Investments		Total
	Bank Balance	Cash Carrying Amount	Government Mutual Funds	US Treasury Bills	
Cash and cash equivalents	\$9,582,591	\$9,571,115	\$1,158,400	\$ 2,271,626	\$ 13,001,141

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(Continued)

All of the Airport's bank balances are entirely insured or collateralized. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 of the Mississippi Code. Under this program, the Airport's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

Restricted assets

In accordance with the series 2014 Revenue Bonds (as more fully described in Note F) the Airport maintains the following restricted cash and cash equivalents:

	September 30,	
	2018	2017
Restricted cash and cash equivalents		
Series 2014 Revenue Bond Funds		
Revenue Fund	\$ 1,088,842	\$ 747,891
Debt Service Fund	46,044	14,019
Debt Service Reserve Fund	2,293,819	2,282,677
PFC Series Security Fund	388	509
Operations and maintenance reserve	1,234	-
Total restricted cash and investments	<u>3,430,327</u>	<u>3,045,096</u>
Unrestricted	9,571,115	8,225,750
Total cash and cash equivalents	<u>\$ 13,001,442</u>	<u>\$ 11,270,846</u>

Investments

The Airport is authorized by law to invest any monies of the Airport, including proceeds from the sale of bonds, notwithstanding any law to the contrary, but subject to any agreements with bondholders, on such terms and in such manner as the Airport and the Trustee deem proper. The Airport bond resolutions have authorized investments in cash and certificates of deposit with qualified depositories; bonds and direct obligations of the United States of America or mutual funds consisting of such obligations; obligations of federal agencies which carry the full faith and credit of the United States of America; AAA rated senior debt obligations issued by FNMA or FHLMC or other US government sponsored agencies; commercial paper; certain prefunded municipal obligations, and any other form of investment allowed under Mississippi Code Section 31-19-5.

In accordance with *Governmental Accounting Standards Board Statement No. 31*, at September 30, 2018, U.S. Treasury bills are recorded at amortized cost.

	September 30, 2018			
	Date	Maturity	Interest	Amortized
	Issued	Date	Rate	Cost
Debt Service Reserve Fund				
United States Treasury Bills	09/20/18	03/21/19	1.616%	<u>\$ 2,271,626</u>

Gulfport–Biloxi Regional Airport Authority
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September 30, 2017

	Date Issued	Maturity Date	Interest Rate	Amortized Cost
Debt Service Reserve Fund				
United States Treasury Bills	03/30/17	03/29/18	0.539%	\$ 2,271,760

Interest rate risk

Interest rate risk is the risk that, over time, the value of investments will decrease as a result of a rise in interest rates. The Airport’s investment policy does not specifically restrict investment maturities other than commercial paper which is limited by state law. The Airport’s policy minimizes interest rate risk by requiring that the particular fund match its investments with the anticipated cash flow requirements thus allowing investments to be held to maturity and minimizing interest rate risk.

Credit risk

Investments in U.S. government securities are not considered to have credit risk and, therefore, their credit quality is not disclosed. As of September 30, 2018, the Airport’s investments in U.S. government mutual funds are unrated. The Airport’s policy allows only the highest or the second highest rating categories for investments other than U.S. government securities. The investments at September 30, 2018 meet the Airport’s investment policy and state law restrictions.

Custodial credit risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Airport does not have a policy for custodial credit risk.

Concentration of credit risk

The Airport has no specific policy regarding concentrations of credit risk. GAAP requires disclosure when any one issuer is 5% or more of the investment portfolio.

Note C – Airport Construction in Progress and Related Grants Receivable

The following is a summary of Airport construction in progress and related grants receivable as of September 30, 2018 and 2017:

	September 30,	
	2018	2017
Federal and state grants	\$ 19,327,900	\$ 27,719,686
Airport share	1,240,515	1,485,999
Total project budgets	\$ 20,568,415	\$ 29,205,685
Project costs to date	\$ 10,538,720	\$ 15,720,518
Less Airport share to date	(1,105,741)	(1,394,337)
Federal and state participation	9,432,979	14,326,181
Less grant funds received and applied to date	(7,684,874)	(12,330,961)
Federal and state grants receivable	\$ 1,748,105	\$ 1,995,220

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(Continued)

As described in Note A, the Airport has implemented an FAA endorsed Passenger Facility Charge (PFC) Program to finance airport development costs. The PFC assessments (\$4.50 per enplaning passenger) are collected by the airlines and remitted to the Airport monthly. As more fully described in Note F, all of the future PFC revenues have been pledged as security against the Airport's revenue bonds. All future PFC revenues will be transferred to the Trustee for debt service and will no longer be available to fund project costs until such time as the bonds are fully retired.

Note D – Airport Facilities

	September 30, 2018		
	<u>Beginning Balance</u>	<u>Additions/ Reclassifications</u>	<u>Ending Balance</u>
General airfield and administration:			
Land, rights of way and easements	\$ 52,872,355	\$ 778,360	\$ 53,650,715
Buildings	2,314,274	19,558	2,333,832
Runways, taxiways, and other infrastructure	165,280,259	6,433,359	171,713,618
Equipment	7,419,972	141,868	7,561,840
Airport development in progress	12,189,589	(2,568,598)	9,620,991
Totals	<u>240,076,449</u>	<u>4,804,547</u>	<u>244,880,996</u>
Less accumulated depreciation	74,881,290	8,677,961	83,559,251
Totals, net	<u>165,195,159</u>	<u>(3,873,414)</u>	<u>161,321,745</u>
Subject to tenant leases:			
Land	2,675,112	-	2,675,112
Buildings	91,875,180	37,256	91,912,436
Equipment	1,833,333	987,071	2,820,404
Totals	<u>96,383,625</u>	<u>1,024,327</u>	<u>97,407,952</u>
Less accumulated depreciation	39,763,177	3,043,317	42,806,494
Totals, net	<u>56,620,448</u>	<u>(2,018,990)</u>	<u>54,601,458</u>
Total Airport facilities, net	<u>\$ 221,815,607</u>	<u>\$ (5,892,404)</u>	<u>\$ 215,923,203</u>

Depreciation expense for the year ended September 30, 2018 was \$11,721,278.

	September 30, 2017		
	<u>Beginning Balance</u>	<u>Additions/ (Reclassifications)</u>	<u>Ending Balance</u>
General airfield and administration:			
Land, rights of way and easements	\$ 52,872,355	\$ -	\$ 52,872,355
Buildings	2,117,273	197,001	2,314,274
Runways, taxiways, and other infrastructure	163,606,430	1,673,829	165,280,259
Equipment	7,317,251	102,721	7,419,972
Airport development in progress	5,588,470	6,601,119	12,189,589
Totals	<u>231,501,779</u>	<u>8,574,670</u>	<u>240,076,449</u>
Less accumulated depreciation	66,490,991	8,390,299	74,881,290
Totals, net	<u>165,010,788</u>	<u>184,371</u>	<u>165,195,159</u>
Subject to tenant leases:			
Land	2,675,112	-	2,675,112
Buildings	91,196,262	678,918	91,875,180
Equipment	1,737,530	95,803	1,833,333
Totals	<u>95,608,904</u>	<u>774,721</u>	<u>96,383,625</u>
Less accumulated depreciation	36,732,861	3,030,316	39,763,177
Totals, net	<u>58,876,043</u>	<u>(2,255,595)</u>	<u>56,620,448</u>
Total Airport facilities, net	<u>\$ 223,886,831</u>	<u>\$ (2,071,224)</u>	<u>\$ 221,815,607</u>

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
September 30, 2018 and 2017
(Continued)

Depreciation expense for the year ended September 30, 2017 was \$11,420,615.

Note E – Lease and Tenant Concession Income

The following is a schedule by years of minimum future revenues on non-cancellable tenant lease agreements:

Year Ending September 30,	
2019	\$ 2,045,198
2020	2,038,407
2021	1,980,792
2022	1,952,496
2023	1,803,636
Thereafter	<u>6,036,372</u>
Total minimum future rentals	<u><u>\$ 15,856,901</u></u>

About 20% of the Airport's lease revenues are contingent upon tenant sales or other operational activity.

The Airport has developed a "Business Office Park" on land owned by the Airport. The Airport provides the infrastructure and leases sites to commercial businesses for the construction of office buildings & other commercial facilities by the lessors. In connection therewith, the Airport has signed six leases, with initial terms of forty years. As called for by the lease agreements, all rents for the initial forty-year term are prepaid by the tenants in advance. In addition, the Airport receives 1-5% of the commercial sub-lease rentals and other gross receipts. For financial reporting purposes, the unearned rent revenue will be recognized over the initial forty-year term of the lease using the straight-line method. The following is a summary of prepaid rent income:

	September 30,	
	2018	2017
Unearned rent revenue, beginning	<u>\$ 1,899,445</u>	\$ 1,968,524
Rent revenue recognized currently	<u>(69,079)</u>	(69,079)
Unearned rent revenue, ending	1,830,366	1,899,445
Less amounts to be recognized within one year	<u>(69,079)</u>	<u>(69,079)</u>
Unearned rent revenue, amount to be recognized beyond one year	<u>\$ 1,761,287</u>	<u>\$ 1,830,366</u>

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
September 30, 2018 and 2017
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Note F – Noncurrent Liabilities – Revenue Bonds Payable

Revenue bonds payable at September 30, 2018 and 2017 consisted of the following:

	September 30,	
	2018	2017
Series 2014A, interest at 3.1%, maturing 2016 - 2028	\$ 18,785,000	\$ 20,365,000
Series 2014B, interest at 3.1%, maturing 2016 - 2028	470,000	510,000
Totals	19,255,000	20,875,000
Less amounts due within one year	(1,670,000)	(1,620,000)
Revenue bonds payable, amounts due beyond one year	<u>\$ 17,585,000</u>	<u>\$ 19,255,000</u>

The Series 2014 (A & B) Passenger Facility Charges and Airport Revenue Refunding Bonds (collectively the “Series 2014 Bonds”) were issued on July 8, 2014 in the amount of \$25,455,000 with a fixed interest rate of 3.1%, and maturities through September 30, 2028. These bonds, along with other available funds of the Airport, were used to (i) refund all of the Airport’s outstanding Series 2004 Bonds, (ii) fund the 2014 Series Debt Service Reserve Fund, and (iii) pay the costs of issuance of the Series 2014 Bonds. The following table illustrates the sources and uses of the bond refunding:

Sources

Principal amount of new debt	\$ 25,455,000
Debt service funds available	6,411,884
Total sources	<u>\$ 31,866,884</u>

Uses

Principal amount of old debt	\$ 28,590,000
Accrued interest on old debt	705,431
New debt service reserve fund	2,387,000
Debt issuance cost	184,453
Total uses	<u>\$ 31,866,884</u>

The refunding resulted in a loss of \$461,833 between the amount of the Series 2014 Bonds and the net carrying amount of the refunded bonds. This deferred loss is reported in the financial statements as a deferred outflow of resources and is being amortized over the remaining life of the new bonds using the straight line method. The current year amortization expense is \$32,988 and has been included in interest expense. The Airport completed the refunding to reduce its total debt service payments over the following 14 years by approximately \$6.7 million and to obtain an economic gain (net present value savings) of approximately \$5 million.

Gulfport–Biloxi Regional Airport Authority
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The following are excerpts from the bond documents regarding security, covenants and maturities:

Security Agreement. The bonds are secured by a pledge of all of the operating revenues (Net Revenues); all of the PFC revenues (PFC Series Security), and generally all of the property of the Airport (Trust Estate), including all monies, investments and all other property of any kind. Additionally, the Airport is restricted in its ability to issue any additional debt obligations.

Rate Covenant. The Airport has agreed to impose, charge and collect rates, fees, rentals or other charges, so as to produce in each fiscal year, commencing with the fiscal year ending September 30, 2014 the sum of Net Revenues and the PFC Series Security received in such fiscal year at least equal to 100% of the Adjusted Debt Service Requirement for such fiscal year. The Airport further agrees to, as often as necessary, revise rates, fees and charges of the Airport in order to remain in compliance with the Rate Covenant. However, the Approved PFC, which comprises the PFC Series Security shall not be decreased from its current level of approved charges. The Airport shall within 30 days after adoption of its annual budget, implement such revisions to its rates, fees and charges as are necessary to cause the estimated Net Revenues and PFC Series Security, collectively, during the fiscal years to which such budget pertains to be not less than the amount required to satisfy the Rate Covenant.

Bond Covenants. The bond resolution provides for the establishment and maintenance of the following special funds, all of which are held by the “Independent Trustee”.

- Revenue Fund: Fund into which all of the Net Revenues of the Airport will be deposited.
- Operation & Expense Account: To deposit amounts equal to the budgeted one-twelfth of the Expenses of Operation and Maintenance anticipated for the then current Fiscal Year as evidenced by the Annual Budget as then in effect.
- Debt Service Fund: The trustee shall transfer monthly from the Revenue Fund & from the PFC Series Security Fund and deposit into the Debt Service Fund an amount sufficient to fund the next principal and interest payments on the Series 2014 bonds.
- Debt Service Reserve Fund: The Debt Service Reserve Fund was initially funded from the bond proceeds in the amount of \$2,387,000. The Debt Service Reserve Fund shall be used by the Trustee to meet the debt service requirements of the bonds when there are insufficient moneys otherwise. The Debt Service Reserve Fund shall be funded to the extent of the Reserve Fund Requirement defined as: the lesser of (1) the maximum amount of annual principal and interest payments coming due during the current or any succeeding calendar year, or (2) 125% of average annual debt service, or (3) the maximum amount which may be deposited in the Debt Service Reserve Fund from proceeds of the Series 2014 Bonds. As of September 30, 2018, the Debt Service Reserve Fund requirement was \$2,271,815.

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(Continued)

- PFC Series Security Fund: There shall be deposited into the PFC Series Security Fund 100% of the approved passenger facility charges (PFCs) collected by the Airport from the airlines. Amounts on deposit in the PFC Series Security Fund may only be used for the purposes for which such amounts are deposited, which is to fund the Debt Service Fund for the Series 2014 A & B issues.
- Rebate Fund: The Trustee is authorized to establish and maintain a Rebate Fund for the purpose of depositing arbitrage profits to be rebated to the United States in accordance with the Tax Certificate.

Bond Principal & Interest Maturities: Bond interest is payable on April 1 and October 1 of each year. Bond principal is due on October 1 of each year. The following is the maturity schedule of all Series 2014 revenue bonds:

Series 2014 revenue bond maturities for the years ending September 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,670,000	\$ 596,905	\$ 2,266,905
2020	1,720,000	545,135	2,265,135
2021	1,780,000	491,815	2,271,815
2022	1,835,000	436,635	2,271,635
2023	1,890,000	379,750	2,269,750
2024	1,950,000	321,160	2,271,160
2025	2,010,000	260,710	2,270,710
2026	2,070,000	198,400	2,268,400
2027	2,130,000	134,230	2,264,230
2028	<u>2,200,000</u>	<u>68,200</u>	<u>2,268,200</u>
Totals	<u>\$ 19,255,000</u>	<u>\$ 3,432,940</u>	<u>\$ 22,687,940</u>

Revenue Bond – Rate Covenant Compliance

As demonstrated below, as of September 30, 2018, the Airport was in compliance with its revenue bond rate covenant coverage ratios:

Adjusted gross operating revenues	\$ 11,324,486
Less operating expenses	<u>(9,888,653)</u>
Net revenues	1,435,833
Debt service requirement	2,267,125
Less PFC revenues received	<u>1,506,430</u>
Debt service requirement, net	760,695
Rate coverage achieved	189%
Coverage required by the bond covenants	100%

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Notes to Financial Statements
September 30, 2018 and 2017
(Continued)

Changes in long-term debt

Changes in long-term debt for the year ended September 30, 2018 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 20,875,000	\$ -	\$ (1,620,000)	\$ 19,255,000	\$ 1,670,000

Changes in long-term debt for the year ended September 30, 2017 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 22,450,000	\$ -	\$ (1,575,000)	\$ 20,875,000	\$ 1,620,000

Interest expense for the years ended September 30, 2018 and 2017 was \$680,113 and \$728,938 respectively.

Note G – Pension Plan

General information about the Pension Plan

Plan description

All of the Airport’s full time employees participate in the Public Employees' Retirement System of Mississippi (PERS), a cost sharing multiple-employer defined benefit plan. Membership in PERS is a condition of employment granted upon hiring for qualifying employees. Members and employers are statutorily required to contribute certain percentages of salaries and wages as specified by the Board of Trustees. Current rates are 15.75 percent for employer contributions and 9.00 percent for members. The Airport’s contributions to the plan for the years ending September 30, 2018, 2017, and 2016 were \$334,858, \$332,246 and \$328,794, respectively. These amounts were 100% of the required contributions.

A member who terminates employment from all covered employers and who is not eligible to receive monthly retirement benefits may request a full refund of his or her accumulated member contributions plus interest. Upon withdrawal of contributions, a member forfeits service credit represented by those contributions. 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 became 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 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable 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 creditable service.

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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. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary.

A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 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 3.0 percent compounded for each fiscal year thereafter.

Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. § 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. The PERS plan financial report is included in the Comprehensive Annual Financial Report of the Public Employees' Retirement System available at www.pers.ms.gov.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At September 30, 2018, the Airport reported a liability of \$5,644,141 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Airport's proportion of the net pension liability was based on a projection of the Airport's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Airport's proportion was .033953%, which was an increase of .000008% from its proportion measured as of June 30, 2016.

For the year ended September 30, 2018, the Airport recognized pension expense of \$720,514. At September 30, 2018, the Airport reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 81,088	\$ 41,184
Net difference between projected and actual earnings on pension plan investments		72,467
Changes in assumptions	125,448	9,617
Changes in proportion and differences between Airport contributions and proportionate share of contributions	105,817	
Airport contributions subsequent to the measurement date	411,732	
Totals	<u>\$ 724,085</u>	<u>\$ 123,268</u>

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Deferred outflows of resources related to pensions resulting from Airport contributions subsequent to the measurement date totaling \$338,131 will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. The remaining balance of \$73,601 will be recognized as a reduction of the net pension liability in the year ended September 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30,		
2019	\$	124,625
2020		115,315
2021		31,714
2022		(82,569)
Total	\$	189,085

Actuarial assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 3.00%

Salary increases 3.75-18.50%, average, including inflation

Investment rate of return 7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2022, with males set forward one year.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of 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.

Notes to Financial Statements

September 30, 2018 and 2017

(Continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. Broad	27.00%	4.60%
International equity	18.00%	4.50%
Emerging markets equity	4.00%	4.75%
Global	12.00%	4.75%
Fixed income	18.00%	0.75%
Real assets	10.00%	3.50%
Private equity	8.00%	5.10%
Emerging debt	2.00%	2.25%
Cash	1.00%	0.00%
Total	100.00%	

Discount rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at the current employer contribution rate. 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.

Sensitivity of the Airport's proportionate share of the net pension liability to changes in the discount rate

The following table presents the net pension liability of the cost-sharing plan, calculated using the discount rate of 7.75%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
Net pension liability	\$ 7,402,668	\$ 5,644,141	\$ 4,184,182

Pension plan fiduciary net position

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

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
September 30, 2018 and 2017
(Continued)

Note H – Deferred Compensation Plan

In addition to PERS, full time employees may also participate in a Section 457 deferred compensation plan funded through a private retirement corporation. All contributions are made by the employees through salary deferral elections. The participants are fully vested in all contributions. The investment of the funds is self-directed by each participant and the retirement corporation through a joiner agreement. With respect to the Section 457 plan, the Airport has no unfunded pension liability or fiduciary responsibility.

Note I – Non-Cash Transactions

The Airport Authority is required to provide fire and rescue service to commercial air transportation to meet the requirements of Federal Aviation Regulation Part 139. Since the Airport assumed responsibility for airport operations in 1977, the fire and rescue function had been provided jointly by the Airport and the Air National Guard (ANG). While the ANG provided the firehouse and fire and rescue vehicles, the Airport paid the salaries of Gulfport City Firemen to man the facility 24 hours a day and respond to various civil and military alerts. This joint effort aided both the Airport and the ANG because no resources were duplicated; yet emergency response coverage was conducted in accordance with FAR 139. In April 1995, the ANG accepted responsibility for providing firemen labor, also. This was justified by the military's recognition of its impact on the Airport, and its desire to pay (or assume) its fair share of Airport operating costs.

The non-cash value of crash, fire and rescue services and facilities provided by ANG in the amounts of \$2,489,933 for 2018 and \$2,359,500 for 2017, have been included in airside lease income and fire and rescue service expense.

Note J – Capital Grants, PFCs and CFCs

	Year Ended September 30,	
	2018	2017
Federal Grant Funds	\$ 4,957,616	\$ 9,146,281
State Grant Funds	466,116	118,881
PFC Funds	1,506,430	1,338,064
CFC Funds	487,406	449,363
Total	\$ 7,417,568	\$ 11,052,589

Note K – Commitments and Contingencies

The Airport is involved in various legal matters arising during the normal course of business activities. Management, after consulting legal counsel, is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the financial condition of the Airport.

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
September 30, 2018 and 2017
(Continued)

Additionally, the Airport is exposed to certain environmental liabilities in the ordinary course of business. The Airport utilizes consultants to adequately evaluate exposures to such liabilities as they arise. The Airport is not aware of any liabilities arising from environmental exposures that management believes will have a material adverse effect on the financial condition of the Airport.

Note L – Subsequent Events

Management has evaluated subsequent events through February 6, 2019, the date on which the financial statements were available to be issued.

Section III

Required and Other Supplemental Information

Gulfport–Biloxi Regional Airport Authority
Schedule of the Airport's Proportionate Share of the Net Pension Liability
Public Employees Retirement Plan of Mississippi
 Last Four Fiscal Years *

	2018	September 30,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Airport's proportion of the net pension liability	0.033953%	0.033154%	0.034708%	0.035140%
Airport's proportionate share of the net pension liability	\$ 5,644,141	\$ 5,922,132	\$ 5,365,172	\$ 4,265,353
Airport's covered-employee payroll	\$ 2,126,085	\$ 2,109,501	\$ 2,087,581	\$ 2,175,686
Airport's proportionate share of the net pension liability as a percentage of its covered-employee payroll	265.47%	280.74%	257.00%	196.05%
Plan fiduciary net position as a percentage of the total pension liability	61.49%	57.47%	61.70%	67.21%

The notes to the required supplementary information are an integral part of this schedule.

See independent auditors' report.

Gulfport–Biloxi Regional Airport Authority
Schedule of Airport Contributions
Public Employee's Retirement System of Mississippi
 Last Ten Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 334,858	\$ 332,246	\$ 328,794	\$ 342,671	\$ 337,835	\$ 321,614	\$ 325,548	\$ 305,836	\$ 265,930	\$ 253,558
Contributions in relation to the contractually required contribution	334,858	332,246	328,794	342,671	337,835	321,614	325,548	305,836	265,930	253,558
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Airport's covered-employee payroll	\$ 2,126,085	\$ 2,109,501	\$ 2,087,581	\$ 2,175,686	\$ 2,144,983	\$ 2,194,239	\$ 2,487,509	\$ 2,548,634	\$ 2,216,085	\$ 2,133,715
Contributions as a percentage of covered-employee payroll	15.75%	15.75%	15.75%	15.75%	15.75%	14.66%	13.09%	12.00%	12.00%	11.88%

The notes to the required supplementary information are an integral part of this schedule.

See independent auditors' report.

Gulfport–Biloxi Regional Airport Authority
Notes to Required Supplementary Information
For the Year Ended September 30, 2018

Changes of Assumptions

- 2017
 - The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disable lives.
 - The wage inflation assumption was reduced from 3.75% to 3.25%.
 - Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
 - The percentage of active member disabilities assumed to be in line of duty was increased from 6% to 7%.
- 2016
 - The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.
- 2015
 - The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.
 - The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.
 - Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
 - Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.
 - The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

Changes in benefit provisions

- 2016
 - Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

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 (June 30, 2015 valuation for the June 30, 2017 fiscal year end). 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	33.9 years
Asset valuation method	5-year smoothed market
Price Inflation	3.00 percent
Salary increase	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

See independent auditors' report.

Gulfport–Biloxi Regional Airport Authority
Budget to Actual Comparison Statement
Year Ended September 30, 2018

Revenues	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget
	Original	Final Amended		
From Airport operations				
Airside leases	\$ 435,322	\$ 435,322	\$ 461,881	\$ 26,559
Landside leases	1,615,205	1,615,205	1,899,571	284,366
Terminal leases	3,529,268	3,529,268	3,476,169	(53,099)
Landing fees	2,131,286	2,131,286	2,042,088	(89,198)
Parking fees	721,781	721,781	806,595	84,814
Other administrative income	15,000	15,000	23,250	8,250
Total from Airport operations	<u>8,447,862</u>	<u>8,447,862</u>	<u>8,709,554</u>	<u>261,692</u>
Expenditures				
Operating expenditures				
Salaries and wages	2,238,147	2,238,147	2,148,462	89,685
Employee taxes and benefits	796,587	796,587	785,076	11,511
Operating supplies, maintenance and repairs	1,471,000	1,471,000	1,250,938	220,062
Contracted services	681,436	681,436	658,942	22,494
Utilities	596,249	596,249	501,982	94,267
Office expense	105,197	105,197	86,011	19,186
Professional services	522,900	522,900	459,973	62,927
Advertising, promotion, training and travel	505,137	505,137	428,423	76,714
Insurance	575,226	575,226	569,948	5,278
Total operating expenditures	<u>7,491,879</u>	<u>7,491,879</u>	<u>6,889,755</u>	<u>602,124</u>
Non-operating revenues (expenditures)				
Interest income	1,300	1,300	3,053	1,753
Customer facility charges	-	500,000	487,407	(12,593)
Passenger facility charges	1,417,970	1,417,970	1,506,430	88,460
Federal grant revenues	13,230,000	4,527,988	4,957,616	429,628
State grant revenues	896,840	500,747	466,116	(34,631)
Debt service interest expense	(602,125)	(602,125)	(594,349)	7,776
Debt service principal reduction	(1,670,000)	(1,670,000)	(1,670,000)	-
Capital expenditures	(15,945,680)	(5,133,093)	(5,832,352)	(699,259)
Total non-operating revenues (expenses)	<u>(2,671,695)</u>	<u>(457,213)</u>	<u>(676,079)</u>	<u>(218,866)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (1,715,712)</u>	<u>\$ 498,770</u>	<u>\$ 1,143,720</u>	<u>\$ 644,950</u>

See independent auditors' report.

Gulfport–Biloxi Regional Airport Authority
Budget to Actual Comparison Statement
Budget to GAAP Reconciliation
Year Ended September 30, 2018

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Excess of revenues over expenses / budgetary basis	\$ 1,143,720
Reconciling items	
Depreciation expense	(11,721,278)
Amortization of deferred outflows	(32,988)
Deferred outflows of resources on net pension expense	(380,487)
Principal reduction on bonds	1,670,000
Capital expenditures added to property and equipment	<u>5,828,872</u>
Change in net position / GAAP basis	<u><u>\$ (3,492,161)</u></u>

See independent auditors' report.

Gulfport–Biloxi Regional Airport Authority
Capital Projects Fund
Statements of Revenues and Expenditures

	Year Ended September 30,	
	2018	2017
Revenues and other sources		
Federal Grants	\$ 4,957,616	\$ 9,146,281
State Grants	466,116	118,881
Passenger Facility Charges (PFC)	1,506,430	1,338,064
Customer Facility Charges (CFC)	487,407	449,362
Transfers (to) from Operating Fund	<u>(1,585,217)</u>	<u>(1,604,362)</u>
 Total revenues & other sources	 <u><u>\$ 5,832,352</u></u>	 <u><u>\$ 9,448,226</u></u>
 Expenditures		
Terminal improvements	\$ 938,626	\$ 163,327
Runway, taxiway and ramp improvements	368,640	6,026,692
Long range planning	201,884	200,801
Land acquisition costs	-	1,247
General aviation	774,103	39,324
Noise compatibility	1,828,013	1,903,691
Furniture, machinery, equipment and small tools	1,600,217	966,642
Capital repairs to facilities and equipment	<u>120,869</u>	<u>146,502</u>
 Total expenditures	 <u><u>\$ 5,832,352</u></u>	 <u><u>\$ 9,448,226</u></u>

See independent auditors' report.

**Schedule of Expenditures of Federal Awards and
Schedule of Passenger Facility Charges**

Gulfport–Biloxi Regional Airport Authority
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

Federal/State Agency, Pass-through Entity Federal Program/State Project	CFDA Number	Contract/Grant Number	Federal Expenditures
Federal Aviation Administration			
Airport Improvement Program	20.106	3-28-0030-083-2014	\$ 307,777
Airport Improvement Program	20.106	3-28-0030-084-2015	(10,662)
Airport Improvement Program	20.106	3-28-0030-085-2015	1,173,780
Airport Improvement Program	20.106	3-28-0030-086-2016	9,903
Airport Improvement Program	20.106	3-28-0030-087-2016	(2,591)
Airport Improvement Program	20.106	3-28-0030-088-2016	34,950
Airport Improvement Program	20.106	3-28-0030-089-2017	1,257,049
Airport Improvement Program	20.106	3-28-0030-090-2017	126,795
Airport Improvement Program	20.106	3-28-0030-091-2017	844,764
Airport Improvement Program	20.106	3-28-0030-092-2018	1,215,851
Total Airport Improvement Program			<u>4,957,616</u>
Total U.S. Department of Transportation			<u>4,957,616</u>
Total expenditures of federal awards			<u><u>\$ 4,957,616</u></u>

See accompanying notes to schedule of expenditures of federal awards.

Gulfport–Biloxi Regional Airport Authority
Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

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Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Gulfport-Biloxi Regional Airport Authority under programs of the federal government for the year ended September 30, 2018. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Gulfport-Biloxi Regional Airport Authority, it is not intended to and does not present the financial position, results of operations and cash flows of Gulfport-Biloxi Regional Airport Authority.

Note B - Summary of Significant Accounting Policies

The Schedule of Expenditures of Federal Awards has been prepared using the accrual basis of accounting. The accrual basis of accounting recognizes revenues when they are earned and expenditures when they are incurred. The expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

Note C - Indirect Cost Rate

The auditee has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note D - Noncash Awards

The auditee did not have any noncash awards.

Note E - Subrecipients

The auditee did not have any subrecipients.

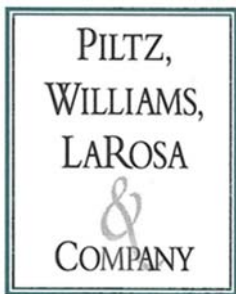
Gulfport–Biloxi Regional Airport Authority
Schedule of Passenger Facility Charges
Year Ended September 30, 2018

<u>Program Description</u>	<u>Application Approved Number</u>	<u>Amended Approved Amount</u>	<u>Cumulative Prior Year Earned Amount</u>	<u>Current Year Earned Amount</u>	<u>Total Earned Amount</u>
Passenger Facility Charge	03-06-C-02-GPT	<u>\$ 57,145,388</u>	<u>\$23,279,671</u>	<u>\$ 1,487,204</u>	<u>\$ 24,766,875</u>

See independent auditors' report.

Section IV

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*



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Margaret D. Closson, CPA (Retired)
Stephen P. Theobald, CPA, CVA

**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***

Commissioners of the Airport Authority
Gulfport–Biloxi Regional Airport Authority
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 Gulfport–Biloxi Regional Airport Authority as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise Gulfport–Biloxi Regional Airport Authority's basic financial statements, and have issued our report thereon dated February 6, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gulfport–Biloxi Regional Airport Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gulfport–Biloxi Regional Airport Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Gulfport–Biloxi Regional Airport Authority's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gulfport–Biloxi Regional Airport Authority’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 entity’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 Airport’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

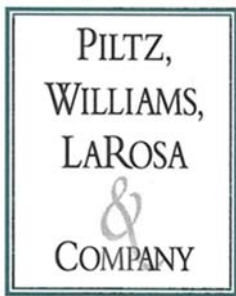


Certified Public Accountants

Biloxi, Mississippi
February 6, 2019

Section V

**Independent Auditors' Report on Compliance for
Each Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance**



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Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance required by the Uniform Guidance

Commissioners of the Airport Authority
Gulfport–Biloxi Regional Airport Authority
Gulfport, Mississippi

Report on Compliance for Each Major Federal Program

We have audited Gulfport–Biloxi Regional Airport Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide), that could have a direct and material effect on Gulfport–Biloxi Regional Airport Authority's major federal program and passenger facility charge programs for the year ended September 30, 2018. Gulfport–Biloxi Regional Airport Authority'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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs and passenger facility charge program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Gulfport–Biloxi Regional Airport Authority'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide). Those standards and the Uniform Guidance 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 Gulfport–Biloxi Regional Airport Authority'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 Gulfport–Biloxi Regional Airport Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, Gulfport–Biloxi Regional Airport Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Report on Internal Control over Compliance

Management of Gulfport–Biloxi Regional Airport Authority 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 of compliance, we considered Gulfport–Biloxi Regional Airport Authority’s internal control over compliance with the types of 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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Gulfport–Biloxi Regional Airport Authority’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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Certified Public Accountants

Biloxi, Mississippi
February 6, 2019

Section 1 – Summary of Auditors' Results

Financial Statements Section

- An unmodified opinion was issued on the financial statements.
- There were no significant deficiencies in internal control disclosed by the audit of the financial statements.
- The audit did not disclose any noncompliance which is material to the financial statements.

Federal Awards Section

- The audit did not disclose any significant deficiencies in internal control over major programs.
- An unmodified opinion was issued on compliance for major programs.
- The audit did not disclose any audit finding that are required to be reported under 2 CFR 200.516(a).
- The major programs were:
 - DOT - Airport Improvement Program CFDA #20.106
- The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- The auditee was determined to be a low-risk auditee.

Section 2 – Findings Relating to the Financial Statements

None

Section 3 – Findings and Questioned Costs for Federal Awards

None

2017-01

Airport Improvement Program CFDA No. 20.106 – Allowable cost / Cash management

Grant no. 3-28-0030-083-2014

Questioned Costs: \$38,339

Criteria: Controls should be in place to make certain that vendor invoices are charged to the correct grant and vendor refunds are given back to the grantor in a timely manner.

Condition: Vendor provided professional services for various grants. The vendor billed the wrong grant and management failed to recognize the error. Funds were drawn from the wrong grant. Later, the vendor discovered the error and issued refunds. In addition, management failed to return the funds to the grant in a timely manner.

Effect: Expenditures were charged to the incorrect grant and funds were drawn in error and not returned in a timely manner.

Recommendation: Management should implement controls to make certain vendor invoices are charged to the correct grant and vendor refunds are returned in a timely manner.

Current Status: The corrective action plan was implemented successfully.

2017-02

Airport Improvement Program CFDA No. 20.106 – Compliance with Uniform Guidance written policies requirement

Grant no. All grants received under Uniform Guidance

Questioned Costs: None

Criteria: Written policies relative to federal awards should be in compliance with Uniform Guidance requirements.

Condition: The existing written policies are very broad, and do not cover all the elements required by the Uniform Guidance.

Effect: Written policies relative to federal awards are not in compliance with Uniform Guidance requirements.

Recommendation: Management should review existing written policies and current Uniform Guidance requirements and implement written policies that includes all the elements required by the Uniform Guidance.

Gulfport–Biloxi Regional Airport Authority
Summary Schedule of Prior Audit Findings
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(Continued)

Current Status: Management completed the corrective action plan successfully by rewriting the applicable directives. Management continues to improve written procedures to include an inventory of reference materials and ensure policies are efficient and comprehensive.

2017-03

Airport Improvement Program CFDA No. 20.106 – Reporting

Grant no. 3-28-0030-086-2016 and 3-28-0030-088-2016

Questioned Costs: None

Criteria: Controls should be in place to make certain that required reports are filed in accordance with the form instructions, using the stated basis of accounting, and amounts agree to the underlying financial records.

Condition: The accountant who filed the required Forms 271 and 425 used incorrect data to populate the forms. The accountant had never filed these forms before and had limited training to understand the forms' requirements.

Effect: Forms 271 and 425 were filed with incorrect data.

Recommendation: Forms should be completed by a properly trained employee and reviewed by a member of management who fully understands the forms and requirements before submission to the FAA.

Current Status: The corrective action plan was implemented successfully.