



Gulfport-Biloxi Regional Airport Authority

Annual Financial Report

For the Years Ended September 30, 2014 and 2013

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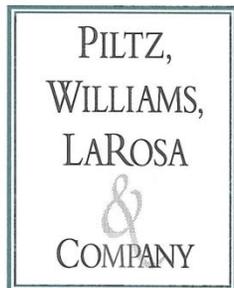
Gulfport–Biloxi Regional Airport Authority
Gulfport, Mississippi

Financial Statements

September 30, 2014 and 2013

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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, 2014 and 2013, 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.

Auditor's 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 previously present fairly, in all material respects, the financial position of the Gulfport–Biloxi Regional Airport Authority as of September 30, 2014 and 2013, and the changes in its financial position, and its cash flows 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 and budgetary comparison information in Section I pages 4 through 10 and Section III pages 28-29 be presented to supplement the 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 30 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 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 January 15, 2015, 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.

A handwritten signature in black ink, appearing to read "P. Williams, CPA". The signature is stylized and includes a large, decorative flourish at the end.

Certified Public Accountants

Biloxi, Mississippi
January 15, 2015

Section I

Management's Discussion and Analysis

September 30, 2014

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, 2014. 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, 2014

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, 2014 and 2013:

Balance Sheets
(in Thousands)

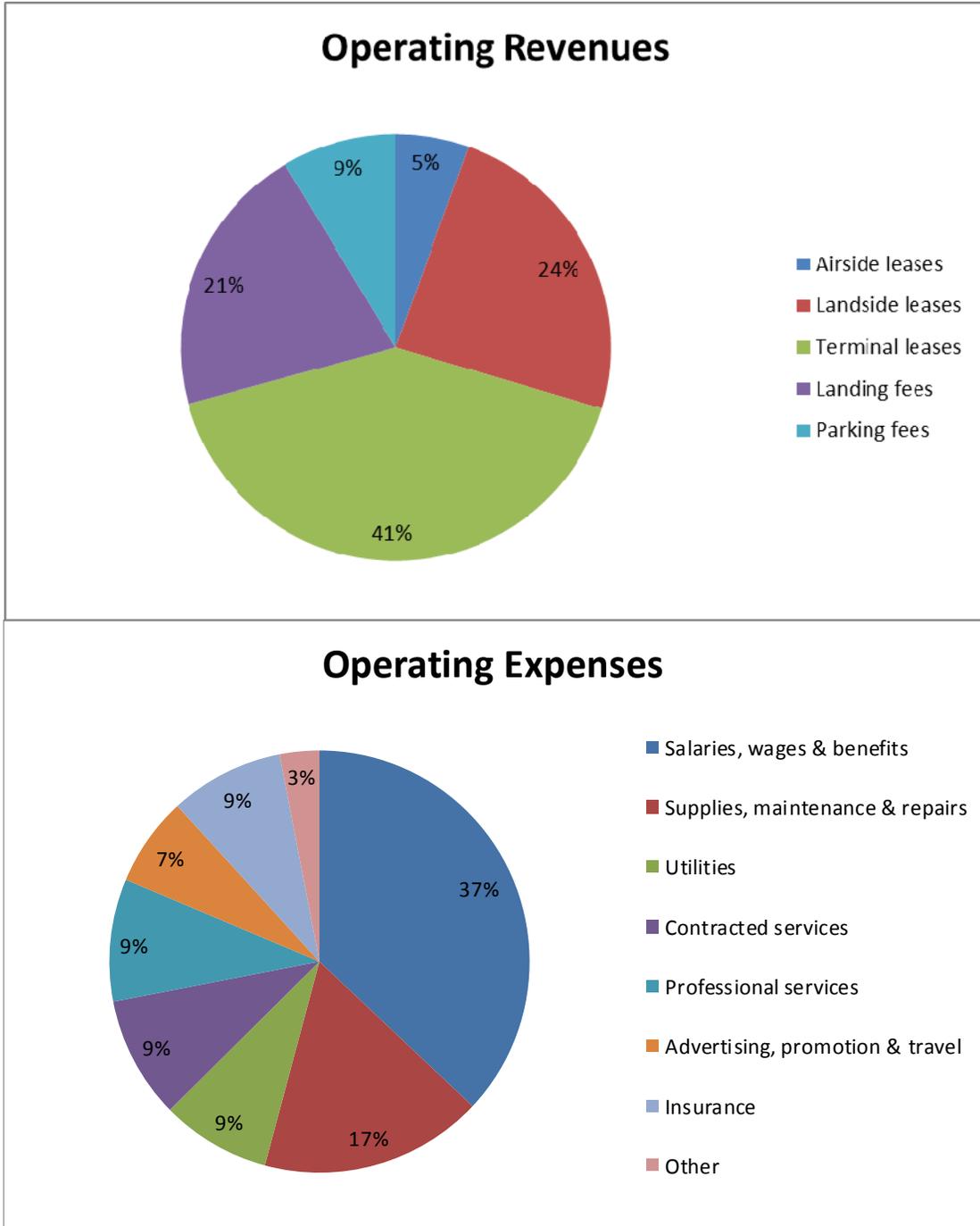
	September 30,	
	2014	2013
Current assets	\$ 17,170	\$ 9,306
Restricted assets	3,516	10,394
Capital assets	222,932	210,785
Deferred outflows	429	-
Total assets and deferred outflows	<u>244,047</u>	<u>230,485</u>
Current liabilities from current assets	8,700	3,120
Current liabilities from restricted assets	1,480	1,858
Noncurrent liabilities	26,013	30,235
Total liabilities	<u>36,193</u>	<u>35,213</u>
Net position (2013 as restated)	<u>\$ 207,854</u>	<u>\$ 195,272</u>
Summary of net position		
Net investment in capital assets	\$ 197,906	\$ 182,657
Restricted	3,516	6,443
Unrestricted and spendable	6,432	6,172
Totals	<u>\$ 207,854</u>	<u>\$ 195,272</u>

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

	Year Ended September 30,	
	2014	2013
Operating revenues	\$ 11,265	\$ 11,881
Operating expenses	(19,778)	(19,192)
Non-operating revenues	3	5
Non-operating expenses	(1,816)	(1,505)
Capital grants, PFCs and CFCs	22,909	10,672
Increase in net position	<u>\$ 12,583</u>	<u>\$ 1,861</u>

Gulfport–Biloxi Regional Airport Authority
Financial Statements
 September 30, 2014

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, 2014.



Financial Highlights

- The Airport’s net position increased by \$12.6 million, or 6.4% as compared to 2013 which had an increase of \$1.7 million or 0.9%. Unrestricted net position, which represents net position available for spending, increased from \$6.2 million to \$6.9 million at the end of 2014.

Financial Statements

September 30, 2014

- Operating revenues decreased by \$616,000 or 5.2% from 2013 to 2014, compared to 2013, which had a decrease of \$152,000 or 1.3% over 2012.
- Operating expenses increased by \$586,000 or 3% as compared to 2013, which had a decrease of \$177,000 or 1% over 2012. The primary component of the increase of 2014 over 2013 relates to the bad debt expense of \$233,000 for 2014, as well as an increase in depreciation expense in 2014.
- Operating expenses, excluding depreciation expense and fire & rescue services, were approximately \$7.6 million for both 2014 and 2013, while 2013 saw a reduction of 11% from 2012 which were \$8.6 million. The primary components of the decreases in these expenses over the last three years were a reduction in personnel costs, insurance costs, as well as travel and promotional costs.
- Operating grants and other income decreased by \$524,066, or 97.5% from 2014 compared to 2013, while 2013 had a reduction of \$19,000, or 3% over 2012. The \$524,000 reduction for 2014 over 2013 is attributable to the Airport not applying for and receiving the PFC revenue replacement funding from Federal and State sources for 2014.
- The Airport had capital grants, PFC and CFC revenues of \$22.9 million, which was an increase of \$12.2 million, or 115% over 2013. In 2013, capital grants, PFC and PFC revenues were \$10.7 million, which was a decrease of 25% over 2012. The significant components of the 2014 increase relates to a couple of very significant airfield infrastructure projects that were completed and/or began in 2014 for touchdown zone replacement and taxiway rehabilitation.
- Capital expenditures for 2014 totaled \$21.8 million, an increase of \$12.7 million from 2013. For 2013, capital expenditures were \$9 million, a decrease of \$3.1 million over the 2012.
- The bond rate covenant was 92% for fiscal 2014. 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 2014 budgets and comparative results.

**Year 2014 Budget to Actual Comparison
(in Thousands)**

	Original Budget	Amended Budget	Actual Results	Variance
Operating revenues	\$ 9,027	\$ 8,871	\$ 8,775	\$ (96)
Operating expenses	(7,707)	(7,526)	(7,398)	128
Operating surplus	1,320	1,345	1,377	32
Other income	5	6	3	(3)
Capital grants, PFCs and CFCs	18,455	18,884	22,909	4,025
Debt service	(2,676)	(2,676)	(2,864)	(188)
Capital expenditures	(16,350)	(17,461)	(21,804)	(4,343)
Excess (deficiency)	\$ 754	\$ 98	\$ (379)	\$ (477)

Financial Statements

September 30, 2014

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 2014 were on updated schedules and these budget amounts will carry over to 2015 when the projects are expected to be completed. Please see the analysis of the year 2015 capital budget under Capital Assets.

Capital Asset and Debt Administration

Capital Assets

At the end of 2014, the Airport had \$223 million invested in Airport facilities, infrastructure and equipment. This amount represents a net increase (including additions and depreciation deductions) of \$12.1 million or about 5.8% over 2013. The Airport had a net decrease of \$155,000 or 0.1% in 2013. 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 2014 and 2013 and the Airport’s capital budget summary for 2015:

**Capital Expenditures & Funding Sources
(in Thousands)**

	Budgeted 2015	Actual 2014	Actual 2013
Capital expenditures			
Runway, taxiway, ramp and apron expansion	\$ 17,000	\$ 16,395	\$ 4,644
General aviation and air cargo	2,900	2	-
Noise compatability	6,000	2,967	3,195
Long range planning	150	89	285
Other capital expenditures	212	2	959
Totals	<u>\$ 26,262</u>	<u>\$ 19,455</u>	<u>\$ 9,083</u>
Funding sources			
Federal grants	\$ 22,213	\$ 19,001	\$ 8,628
State grants	2,644	2,114	481
PFCs (for debt service)	1,382	1,378	1,504
CFCs	500	416	550
Local funds (for debt service mostly)	(477)	(3,454)	(2,080)
Totals	<u>\$ 26,262</u>	<u>\$ 19,455</u>	<u>\$ 9,083</u>

The Airport’s 2015 capital budget is approximately \$26.3 million. The capital budget for 2015 is focused primarily on Airport infrastructure projects, including the completion of a significant runway touchdown zone replacement project on the Airport’s main runway, other ongoing runway / taxiway rehabilitation projects, as well as the continued participation in the FAA’s Noise Compatibility programs.

Financial Statements

September 30, 2014

Debt

**Bonds Payable
(In Thousands)**

	September 30,	
	2014	2013
Revenue bonds payable	<u>\$ 25,455</u>	<u>\$ 29,258</u>

In July of 2014, the Airport completed a bond refunding of its outstanding 2004 Series bonds. As a result of the refunding transaction, the Airport will achieve approximately \$400,000 in annual debt service savings for the remainder of the 14 year term on the bonds. In addition the Airport was able to free up approximately \$3 million in funds that were previously restricted in the refunded bond indenture. 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 2015 passenger traffic to see a small increase compared to 2014. Indications are the legacy carriers will be adding approximately 20% more seats in the market during the Spring and Summer months of 2015 over 2014. The Airport will continue to focus resources on retaining existing air service, providing excellence in customer service and 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 2014, Delta Airlines enhanced their service by adding mainline aircraft. Delta is now flying as part of its rotation Boeing 717, MD-88, A-319, and regional jets as a part of its fleet mix. Sun Country Airlines began servicing the Airport as the carrier for the Beau Rivage Resort and Casino. The Airport expects to see further consolidation of American Airlines and US Airways rental space at the Airport due to the merger of the airlines.

The Airport has 16 daily departures, serviced by five airlines, for a total of 1,193 daily seats available to the community. The seat share by carrier is as follows:

- Delta 40%
- United Airlines 14%
- US Airways 12%
- Sun Country 18%
- American Eagle 16%

The Airport has five nonstop markets, represented by the following map:



The Airport’s total budgeted operating expenses (excluding depreciation expense and fire & rescue services) for 2015 is approximately \$7.8 million. This level of operating expense is at or below years immediately prior to the economic downturn.

The following table is a summary of the Airport’s operating budget for the fiscal year ending September 30, 2015:

Year 2015 Operating Budget Summary
(in Thousands)

Operating revenues	\$ 8,919
Operating expenses (excludes depreciation & fire and rescue services)	(7,843)
Operating surplus	1,076
Capital grants, PFCs and CFCs	26,739
Debt service	(2,383)
Capital expenditures	(26,262)
Excess (use)	\$ (830)

Contacting the Airport’s Finance Director

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 Stephen Oberlies, CPA, Director of Finance and Administration at 228-248-3026 / 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,	
	2014	2013
Current assets		
Cash and cash equivalents	\$ 7,162,135	\$ 4,346,470
Accounts receivable, Airport tenants	1,210,295	1,339,028
Grant funds receivable	8,340,030	3,173,136
Prepaid insurance	457,164	447,445
Total current assets	17,169,624	9,306,079
Noncurrent assets		
Restricted cash and cash equivalents	3,515,875	10,393,972
Capital assets:		
Airport facilities, net of accumulated depreciation	222,931,707	210,784,936
Total assets	243,617,206	230,484,987
Deferred outflows of resources:		
Unamortized loss on refunded debt	428,845	-
Total assets and deferred outflows of resources	\$ 244,046,051	\$ 230,484,987
 Liabilities		
Current liabilities payable from current assets		
Accounts payable	\$ 663,994	\$ 689,024
Payables related to construction	7,710,694	2,121,451
Accrued wages and compensated absences	256,127	240,243
Unearned rent revenue	69,079	69,079
Total current liabilities payable from current assets	8,699,894	3,119,797
Current liabilities payable from restricted assets		
Accrued interest on bonds	-	728,695
Revenue bonds payable, amounts due within one year	1,480,000	1,130,000
Total current liabilities payable from restricted assets	1,480,000	1,858,695
Noncurrent liabilities		
Unearned rent revenue, amount to be recognized beyond one year	2,037,603	2,106,682
Revenue bonds payable, amounts due beyond one year	23,975,000	28,128,167
Total noncurrent liabilities	26,012,603	30,234,849
Total liabilities	36,192,497	35,213,341
 Net Position		
Net Investment in Capital Assets	197,905,552	182,656,769
Restricted for debt service and capital outlay	3,515,876	6,442,700
Unrestricted	6,432,126	6,172,177
Total net position (2013 as restated)	207,853,554	195,271,646
Total liabilities and net position	\$ 244,046,051	\$ 230,484,987

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

12

	Year Ended September 30,	
	2014	2013
Airport operating revenues		
Airsides leases	\$ 2,974,013	\$ 2,976,165
Landside leases	2,114,646	2,096,611
Terminal leases	3,595,393	3,457,373
Landing fees	1,813,997	2,071,581
Parking fees	753,707	741,605
Operating grants and other income	13,207	537,273
Total operating revenues	11,264,963	11,880,608
Airport operating expenses		
Salaries and wages	2,075,784	2,191,520
Employee taxes and benefits	749,201	732,865
Fire and rescue service	2,490,361	2,432,349
Operating supplies, maintenance and repairs	1,242,248	1,160,688
Contracted services	713,188	695,375
Utilities	642,945	631,319
Office expense	68,937	75,872
Professional services	716,121	811,958
Advertising, promotion, conferences and travel	523,453	526,627
Bad debt expense	232,571	-
Insurance	669,025	760,633
Depreciation expense	9,654,291	9,173,067
Total operating expenses	19,778,125	19,192,273
Operating loss	(8,513,162)	(7,311,665)
Non-operating revenues (expenses)		
Interest income	3,003	4,628
Interest expense	(1,816,495)	(1,505,013)
Total non-operating revenues (expenses)	(1,813,492)	(1,500,385)
Net loss before capital contributions	(10,326,654)	(8,812,050)
Capital grants, PFCs & CFCs	22,908,562	10,671,516
Change in net position (2013 as restated)	12,581,908	1,859,466
Total net position, beginning (2013 as restated)	195,271,646	193,412,180
Total net position, ending (2013 as restated)	\$ 207,853,554	\$ 195,271,646

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

Gulfport–Biloxi Regional Airport Authority
Statements of Cash Flows

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	Year Ended September 30,	
	2014	2013
Cash flows from operating activities		
Cash received from Airport operations	\$ 8,834,255	\$ 9,012,184
Cash paid to suppliers for goods and services	(4,843,236)	(4,647,021)
Cash paid to and for employees	(2,809,102)	(2,914,901)
Net cash provided by operating activities	1,181,917	1,450,262
Cash flows from capital and related financing activities		
Proceeds from federal and state grants	13,649,428	10,206,285
Proceeds from PFC and CFC funds	1,793,238	2,053,435
TSA and Air National Guard construction cost reimbursements	2,299,003	33,636
Capital expenditures	(16,211,819)	(9,060,569)
Proceeds from the issuance of revenue bonds	25,455,000	-
Cash paid to refund bonds	(28,590,000)	-
Principal paid on bonds	(1,130,000)	(1,005,000)
Interest paid on bonds	(2,327,749)	(1,477,453)
Bond issuance costs paid	(184,453)	-
Net cash (used for) provided by capital and related financing activities	(5,247,352)	750,334
Cash flows from investing activities		
Interest income received	3,003	4,628
Net (decrease) increase in cash and cash equivalents	(4,062,432)	2,205,224
Cash and cash equivalents, beginning of year	14,740,442	12,535,218
Cash and cash equivalents, end of year	\$ 10,678,010	\$ 14,740,442
Summary of cash and cash equivalents, end of year		
Unrestricted	\$ 7,162,135	\$ 4,346,470
Restricted	3,515,875	10,393,972
Totals	\$ 10,678,010	\$ 14,740,442
Reconciliation of operating loss to net cash provided by operations		
Operating loss	\$ (8,513,162)	\$ (7,311,665)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	9,654,291	9,173,067
Bad debt expense	232,571	-
(Increase) decrease in accounts receivable	(103,839)	133,004
Decrease (increase) in prepaid insurance	(9,719)	84,335
Non-capital operating grants	-	(500,000)
Decrease in accounts payable and accrued expenses	(9,146)	(59,400)
Decrease in unearned rent revenue	(69,079)	(69,079)
Net cash provided by operating activities	\$ 1,181,917	\$ 1,450,262

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 aviation 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.

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
(Continued)

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- 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 and amortization 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 with a maturity date within three months of the date acquired by the Airport Trustee. 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.
- 9. Deferred Outflows 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.

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
(Continued)

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, 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.

12. Adopted Accounting Standards – In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. The objective of this statement is to establish accounting and financial reporting standards that reclassifies as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The financial reporting impact resulting from the implementation of GASB 65 is primarily the change in presentation from long term liabilities to deferred outflows for unamortized loss on refunded debt. In addition, debt issuance cost which were previously recorded as deferred charges have been restated and recorded as an expense as they no longer meet the asset or deferred outflow definition. GASB 65 implementation relating to debt issuance cost has resulted in a restatement of net position as of October 1, 2012, see Note K.

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, 2014, 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	\$ 4,630,198	\$ 4,624,809	\$ 6,053,201	\$ -	\$ 10,678,010

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
(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,	
	2014	2013
Restricted cash and cash equivalents		
Series 2014 Revenue Bond Funds		
Revenue Fund	\$ 856,560	\$ -
Debt Service Fund	2,192	-
Debt Service Reserve Fund	2,387,035	-
PFC Series Security Fund	270,088	-
Prior year restricted assets for debt service funds		10,393,972
Total restricted cash and investments	3,515,875	10,393,972
Unrestricted	7,162,135	4,346,470
Total cash and cash equivalents	\$ 10,678,010	\$ 14,740,442

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, 2014 and 2013, investment securities are recorded at fair value determined by reference to quoted prices in an active market for identical assets (Level 1 - quoted market prices). The cost and fair value (carrying amount) of investment securities are summarized as follows:

As of September 30, 2014, the Airport had no investment securities on hand.

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
(Continued)

September 30, 2013

	Date Issued	Maturity Date	Interest Rate	Cost	Fair Value
Debt Service Reserve Fund					
United States Treasury Bills	09/12/13	03/13/14	0.03%	\$ 2,758,653	<u>\$ 2,758,641</u>

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, 2014, 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, 2014 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, 2014 and 2013:

	September 30,	
	2014	2013
Federal and state grants	\$ 49,203,198	\$ 47,255,743
Airport share	1,824,144	1,477,327
Total project budgets	<u>\$ 51,027,342</u>	<u>\$ 48,733,070</u>
Project costs to date	\$ 35,301,393	\$ 26,841,751
Less Airport share to date	<u>(1,655,154)</u>	<u>(1,371,801)</u>
Federal and state participation	33,646,239	25,469,950
Less grant funds received and applied to date	<u>(25,363,396)</u>	<u>(22,354,003)</u>
Add grant funds receivable on closed projects	57,187	57,189
Federal and state grants receivable	<u>\$ 8,340,030</u>	<u>\$ 3,173,136</u>

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
(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, 2014			Ending Balance
	Beginning Balance	Additions/ Reclassifications	Dispositions	
General airfield and administration:				
Land, rights of way and easements	\$ 39,620,521	\$ 4,715,976	\$ -	\$ 44,336,497
Buildings	2,033,212	-	95,499	1,937,713
Runways, taxiways, and other infrastructure	135,990,962	1,232,525	8,955,579	128,267,908
Equipment	7,855,639	267,432	1,703,478	6,419,593
Airport development in progress	14,910,727	15,398,033	-	30,308,760
Totals	200,411,061	21,613,966	10,754,556	211,270,471
Less accumulated depreciation	55,051,679	6,557,871	10,648,301	50,961,249
Totals, net	145,359,382	15,056,095	106,255	160,309,222
Subject to tenant leases:				
Land	2,559,833	59,915		2,619,748
Buildings	91,189,517		2,135,188	89,054,329
Equipment	1,851,683	127,181	276,590	1,702,274
Totals	95,601,033	187,096	2,411,778	93,376,351
Less accumulated depreciation	30,175,479	2,986,022	2,407,635	30,753,866
Totals, net	65,425,554	(2,798,926)	4,143	62,622,485
Total Airport facilities, net	\$ 210,784,936	\$ 12,257,169	\$ 110,398	\$ 222,931,707

Depreciation expense for the year ended September 30, 2014 was \$9,654,291, and includes the \$110,398 loss on disposition of fully depreciated and other out of service assets.

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
(Continued)

	September 30, 2013		
	Beginning Balance	Additions/ (Reclassifications)	Ending Balance
General airfield and administration:			
Land, rights of way and easements	\$ 32,001,892	\$ 7,618,629	\$ 39,620,521
Buildings	2,004,712	28,500	2,033,212
Runways, taxiways, and other infrastructure	116,139,164	19,851,798	135,990,962
Equipment	6,139,267	1,716,372	7,855,639
Airport development in progress	35,107,866	(20,197,139)	14,910,727
Totals	191,392,901	9,018,160	200,411,061
Less accumulated depreciation	48,865,716	6,185,963	55,051,679
Totals, net	142,527,185	2,832,197	145,359,382
Subject to tenant leases:			
Land	2,559,833		2,559,833
Buildings	91,189,517		91,189,517
Equipment	1,851,683		1,851,683
Totals	95,601,033	-	95,601,033
Less accumulated depreciation	27,188,375	2,987,104	30,175,479
Totals, net	68,412,658	(2,987,104)	65,425,554
Total Airport facilities, net	\$ 210,939,843	\$ (154,907)	\$ 210,784,936

Depreciation expense for the year ended September 30, 2013 was \$9,173,067.

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 <u>September 30,</u>	
2015	\$ 2,260,445
2016	2,271,699
2017	2,256,876
2018	1,946,890
2019	363,783
Thereafter	7,344,885
Total minimum future rentals	\$ 16,444,578

About 21% of the Airport's lease revenues are contingent upon tenant sales or other operational activity.

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
(Continued)

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,	
	2014	2013
Unearned rent revenue, beginning	\$ 2,175,761	\$ 2,244,840
Rent revenue recognized currently	(69,079)	(69,079)
Unearned rent revenue, ending	2,106,682	2,175,761
Less amounts to be recognized within one year	(69,079)	(69,079)
Unearned rent revenue, amount to be recognized beyond one year	\$ 2,037,603	\$ 2,106,682

Note F – Noncurrent Liabilities – Revenue Bonds Payable

Revenue bonds payable at September 30, 2014 and 2013 consisted of the following:

	September 30,	
	2014	2013
Series 2014A, interest at 3.1%, maturing 2015 - 2028	\$ 24,835,000	\$ -
Series 2014B, interest at 3.1%, maturing 2015 - 2028	620,000	-
Series 2004A, interest at 2% - 5%, refunded 2014	-	28,980,000
Series 2004B, interest at 2.15% - 4.75%, refunded 2014	-	740,000
Totals	25,455,000	29,720,000
Less amounts due within one year	(1,480,000)	(1,130,000)
Revenue bonds payable, amounts due beyond one year	23,975,000	28,590,000
Less unamortized discounts	-	(461,833)
Revenue bonds payable, amounts due beyond one year, net	\$ 23,975,000	\$ 28,128,167

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
(Continued)

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 next 14 years by approximately \$6.7 million and to obtain an economic gain (net present value savings) of approximately \$5 million.

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.

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
(Continued)

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, 2014, the Debt Service Reserve Fund requirement was \$2,387,000.
- 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 Issuance Cost: The Series 2014 bond issuance cost in the amount of \$184,453 was included in interest expense.

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:

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
(Continued)

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,480,000	\$ 971,038	\$ 2,451,038
2016	1,525,000	743,225	2,268,225
2017	1,575,000	695,950	2,270,950
2018	1,620,000	647,125	2,267,125
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	2,200,000	68,200	2,268,200
Totals	<u>\$ 25,455,000</u>	<u>\$ 6,490,278</u>	<u>\$ 31,945,278</u>

Revenue Bond – Rate Covenant Compliance

As demonstrated below, as of September 30, 2014, the Airport was not in compliance with its revenue bond rate covenant coverage ratios:

Adjusted gross operating revenues	\$ 11,264,963
Less operating expenses	<u>(10,123,834)</u>
Net revenues	1,141,129
Debt service requirement	2,622,000
Less PFC revenues received	<u>1,377,550</u>
Debt service requirement, net	1,244,450
Rate coverage achieved	92%
Coverage required by the bond covenants	100%

The Airport's rate covenant calculation would have been 110% had it not had to charge off \$233,000 related to bad debt for certain Airport tenants. The Airport was in compliance with all other provisions of the bond covenants.

Changes in long-term debt

Changes in long-term debt for the year ended September 30, 2014 are summarized as follows:

	<u>Beginning</u>		<u>Ending</u>	<u>Amounts</u>
	<u>Balance</u>	<u>Additions</u>	<u>Balance</u>	<u>Due Within</u>
		<u>Reductions</u>		<u>One Year</u>
Revenue bonds	<u>\$ 29,720,000</u>	<u>\$ 25,455,000</u>	<u>\$ (29,720,000)</u>	<u>\$ 1,480,000</u>

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
(Continued)

Changes in long-term debt for the year ended September 30, 2013 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 30,725,000	\$ -	\$ (1,005,000)	\$ 29,720,000	\$ 1,130,000

Interest expense for the years ended September 30, 2014 and 2013 was \$1,816,495 and \$1,505,013 respectively.

Note G – Pension Plan

Plan Description – The Gulfport – Biloxi Regional Airport Authority contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444 PERS.

Funding Policy – PERS members are required to contribute 9% of their annual covered salary and the Airport is required to contribute at an actuarially determined rate, which is currently 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Airport's contributions for the years ending September 30, 2014 and 2013 were \$341,691 and \$319,859, respectively, equal to the required contributions for each year.

In addition to PERS, the 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 H – 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

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
(Continued)

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 \$2,490,361 for 2014 and \$2,432,349 for 2013, have been included in airside lease income and fire and rescue service expense.

Note I – Capital Grants, PFCs and CFCs

	Year Ended September 30,	
	2014	2013
Federal Grant Funds	\$ 16,680,767	\$ 8,098,731
State Grant Funds	2,135,555	485,711
PFC Funds	1,377,550	1,503,727
CFC Funds	415,687	549,711
National Guard Capital Reimbursements	2,332,239	8,890
TSA Capital Reimbursements	(33,236)	24,746
Total	\$ 22,908,562	\$ 10,671,516

Note J – 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.

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 K – Restatement Due To Implementation of New Accounting Standards

As a result of implementing GASB 65, net position was restated as of October 1, 2012. Bond issuance costs are expensed and no longer amortized annually. The following is a reconciliation of the 2013 amounts that have been restated as a result of the implementation of GASB 65:

	<u>September 30, 2013</u>
Net position, beginning of period, as previously reported	\$ 195,229,264
Less unamortized bond issuance cost	(1,817,084)
Net position, beginning of period, restated	<u>\$ 193,412,180</u>
Change in net position, as previously reported	\$ 1,689,608
Reverse amortization of debt issuance cost	169,858
Change in net position, as restated	<u>\$ 1,859,466</u>
Net position, end of period, as restated	<u>\$ 195,271,646</u>

Gulfport–Biloxi Regional Airport Authority
Notes to Financial Statements
(Continued)

Note L – Subsequent Events

Management has evaluated subsequent events through January 15, 2015, the date on which the financial statements were available to be issued.

Section III

Required and Other Supplemental Information

Gulfport–Biloxi Regional Airport Authority
Budget to Actual Comparison Statement
Year Ended September 30, 2014

Revenues	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget
	Original	Final Amended		
From Airport operations				
Airside leases	\$ 525,289	\$ 504,989	\$ 483,652	\$ (21,337)
Landside leases	2,162,983	2,153,179	2,114,646	(38,533)
Terminal leases	3,670,456	3,599,670	3,595,393	(4,277)
Landing fees	1,850,063	1,850,064	1,813,997	(36,067)
Parking fees	799,566	749,566	753,707	4,141
Other administrative income	18,500	13,500	13,207	(293)
Total from Airport operations	<u>9,026,857</u>	<u>8,870,968</u>	<u>8,774,602</u>	<u>(96,366)</u>
Expenditures				
Operating expenditures				
Salaries and wages	2,152,825	2,113,655	2,075,785	37,870
Employee taxes and benefits	755,147	760,048	749,201	10,847
Operating supplies, maintenance and repairs	1,360,131	1,291,772	1,260,395	31,377
Contracted services	708,073	705,073	704,106	967
Utilities	726,000	671,000	632,607	38,393
Office expense	81,200	75,700	68,937	6,763
Professional services	704,900	713,980	714,054	(74)
Advertising, promotion, conferences and travel	575,200	546,000	523,453	22,547
Insurance	643,846	649,042	669,025	(19,983)
Total operating expenditures	<u>7,707,322</u>	<u>7,526,270</u>	<u>7,397,563</u>	<u>128,707</u>
Non-operating revenues (expenditures)				
Interest income	5,200	5,850	3,003	(2,847)
Customer facility charges	600,000	450,000	415,687	(34,313)
Passenger facility charges	1,624,300	1,374,300	1,377,550	3,250
Federal grant revenues	15,880,556	16,517,865	19,001,115	2,483,250
State grant revenues	350,000	541,625	2,114,209	1,572,584
Debt service interest expense	(1,410,863)	(1,410,862)	(1,599,054)	(188,192)
Debt service principal reduction	(1,265,000)	(1,265,000)	(1,265,000)	-
Capital expenditures	(16,349,756)	(17,461,371)	(21,804,401)	(4,343,030)
Total non-operating revenues (expenses)	<u>(565,563)</u>	<u>(1,247,593)</u>	<u>(1,756,891)</u>	<u>(509,298)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 753,972</u>	<u>\$ 97,105</u>	<u>\$ (379,852)</u>	<u>\$ (476,957)</u>

See independent auditors' report.

Gulfport–Biloxi Regional Airport Authority
Budget to Actual Comparison Statement
Budget to GAAP Reconciliation
Year Ended September 30, 2014

29

Excess (deficiency) of revenues over expenses / budgetary basis	\$ (379,852)
Reconciling items	
Depreciation expense	(9,654,291)
Amortization of deferred outflows	(32,988)
Series 2014 bond issuance cost	(184,453)
Bad debt expense	(232,571)
Principal reduction on bonds	1,265,000
Capital expenditures added to property and equipment	<u>21,801,063</u>
Change in net position / GAAP basis	<u>\$ 12,581,908</u>

See independent auditors' report.

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

	Year Ended September 30,	
	2014	2013
Revenues and Other Sources		
Federal Grants	\$ 16,680,767	\$ 8,598,731
State Grants	2,135,555	485,711
Passenger Facility Charges (PFC)	1,377,550	1,503,727
Customer Facility Charges (CFC)	415,687	549,711
National Guard capital expense reimbursement	2,332,239	8,889
FAA and TSA capital expense reimbursement	(33,236)	24,747
Transfers (to) from Operating Fund	(1,104,161)	(2,088,744)
	\$ 21,804,401	\$ 9,082,772
 Expenditures		
Terminal expansion and improvements	\$ -	\$ 1,155
Runway, taxiway and ramp improvements	16,394,791	4,643,927
Long range planning	88,778	285,493
Land acquisition costs	-	1,449
General aviation	2,159	-
Noise compatibility	2,967,101	3,195,279
8th Avenue connector	-	754
Perimeter roads	1,903,208	875,293
Office park	59,915	-
Furniture, machinery, equipment and small tools	388,449	6,412
Capital repairs to facilities and equipment	-	73,010
	\$ 21,804,401	\$ 9,082,772

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, 2014

Federal/State Agency, Pass-through Entity Federal Program/State Project	CFDA Number	Contract/Grant Number	Federal Expenditures
U.S. Department of Transportation			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-28-0030-067-2008	\$ (166,028)
Airport Improvement Program	20.106	3-28-0030-073-2010	239,227
Airport Improvement Program	20.106	3-28-0030-074-2010	(15,624)
Airport Improvement Program	20.106	3-28-0030-076-2011	5,318,638
Airport Improvement Program	20.106	3-28-0030-077-2011	2,577,523
Airport Improvement Program	20.106	3-28-0030-078-2012	1,625,682
Airport Improvement Program	20.106	3-28-0030-080-2012	40,499
Airport Improvement Program	20.106	3-28-0030-081-2013	3,895,377
Airport Improvement Program	20.106	3-28-0030-082-2014	3,187,006
Airport Improvement Program	20.106	3-28-0030-083-2014	(186)
Total Airport Improvement Program	20.106		<u>16,702,114</u>
Federal Highway Administration			
Passed through the Mississippi Department of Transportation			
Intermodal Connector Improvements Program (ICIP)	20.205	NHS-9163-00(001) & 105684-701000	(21,346)
Total ICIP	20.205		<u>(21,346)</u>
Total U.S. Department of Transportation			<u>16,680,768</u>
U.S. Department of Defense			
Military Construction Cooperative Agreement	N/A	W9127Q-14-2-2101	<u>2,332,239</u>
U.S. Department of Homeland Security			
Passed through the Transportation Security Administration			
In-Line Checked Baggage Inspection System Project-Other Transaction Agreement	N/A	HSTS04-10-H-CT1059	(33,237)
Total U.S. Department of Homeland Security			<u>(33,237)</u>
Total expenditures of federal awards			<u>\$ 18,979,770</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, 2014

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, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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

1. General

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 OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*.

2. Contingency

The grant revenue amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the Authority. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.

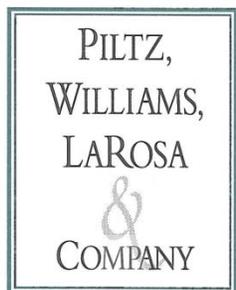
Gulfport–Biloxi Regional Airport Authority
Schedule of Passenger Facility Charges
Year Ended September 30, 2014

<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>\$ 18,010,701</u>	<u>\$ 1,366,749</u>	<u>\$ 19,377,450</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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**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, 2014, 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 January 15, 2015.

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.

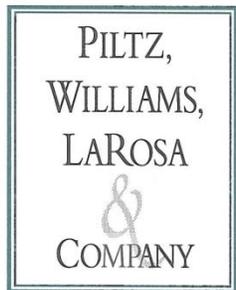


Certified Public Accountants

Biloxi, Mississippi
January 15, 2015

Section V

**Independent Auditors' Report on Compliance for
Each Major Program and on Internal Control over
Compliance required by OMB Circular A-133**



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Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance required by OMB Circular A-133

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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 Circular A-133 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, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to its major federal programs and passenger facility charge program.

Auditor's 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations and the Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide). Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2014.

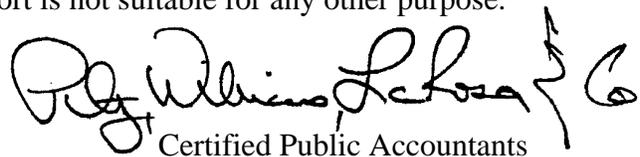
Report on Internal Control over Compliance

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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


Certified Public Accountants

Biloxi, Mississippi
January 15, 2015

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 findings that are required to be reported under Section 510(a) of OMB Circular A-133.
- The major programs were:
 - DOT - Airport Improvement Program CFDA #20.106
 - DOD – Military Construction Cooperative Agreement #W9127Q-14-2-2101
- The dollar threshold used to distinguish between Type A and Type B programs was \$569,393.
- 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