

COMMONWEALTH PORTS AUTHORITY

REPORT ON THE AUDIT OF FINANCIAL  
STATEMENTS IN ACCORDANCE  
WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2003

COMMONWEALTH PORTS AUTHORITY

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2003 AND 2002



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Commonwealth Ports Authority:

We have audited the accompanying statements of net assets of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of CPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of CPA as of September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 20 through 39 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining divisional information presented on pages 3 through 5, which is also the responsibility of CPA's management, is presented for purposes of additional analysis and is not a required part of the financial statements of CPA. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2003, on our consideration of CPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Deloitte & Touche*

November 21, 2003

COMMONWEALTH PORTS AUTHORITY

Statements of Net Assets  
September 30, 2003 and 2002  
(With Combining Divisional Information as of September 30, 2003)

<u>ASSETS</u>	<u>Airport Division</u>	<u>Seaport Division</u>	<u>2003</u>	<u>2002</u>
<b>Current assets:</b>				
Cash and cash equivalents	\$ 4,420,458	\$ 648,885	\$ 5,069,343	\$ 2,803,781
Investments (note 4)	2,437,634	86,835	2,524,469	3,632,301
Receivables:				
Grantor agencies (note 3)	2,121,099	-	2,121,099	3,218,329
Operations, net (note 5)	1,660,576	369,180	2,029,756	2,327,840
Receivable from related parties (note 10)	-	30,963	30,963	19,334
Due from Seaport Division	103,126	-	103,126	97,209
Officers and employees	26,801	3,029	29,830	31,592
Prepaid expenses	106,093	222	106,315	43,451
Deferred bond issue cost, current portion	27,170	37,284	64,454	64,454
Total current assets	<u>10,902,957</u>	<u>1,176,398</u>	<u>12,079,355</u>	<u>12,238,291</u>
<b>Other assets:</b>				
Investments restricted for construction and debt service purposes (note 4)	<u>2,854,224</u>	<u>8,538,929</u>	<u>11,393,153</u>	<u>10,871,255</u>
<b>Noncurrent assets:</b>				
Deferred bond issue cost	616,756	847,592	1,464,348	1,521,741
Receivable from related parties (note 10)	3,736,488	-	3,736,488	3,239,780
Property, plant and equipment, net (note 6)	<u>92,880,300</u>	<u>49,897,745</u>	<u>142,778,045</u>	<u>138,938,024</u>
Total noncurrent assets	<u>97,233,544</u>	<u>50,745,337</u>	<u>147,978,881</u>	<u>143,699,545</u>
	<u>\$ 110,990,725</u>	<u>\$ 60,460,664</u>	<u>\$ 171,451,389</u>	<u>\$ 166,809,091</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>				
<b>Current liabilities:</b>				
Revenue bonds payable, current portion (note 7)	\$ 330,000	\$ 545,000	\$ 875,000	\$ 820,000
Notes payable to related party, current portion (note 8)	-	1,147,341	1,147,341	1,051,305
Contractors payable	3,876,696	16,600	3,893,296	3,027,423
Trade and other payable	308,219	2,808	311,027	237,918
Due to related parties (note 10)	773,589	87,420	861,009	754,745
Due to Airport Division	-	103,126	103,126	97,209
Accrued expenses	1,238,513	355,876	1,594,389	1,548,673
Deferred income	25,886	-	25,886	21,658
Total current liabilities	<u>6,552,903</u>	<u>2,258,171</u>	<u>8,811,074</u>	<u>7,558,931</u>
Revenue bonds payable (note 7)	18,187,464	29,760,363	47,947,827	48,720,149
Notes payable to related party (note 8)	-	7,393,474	7,393,474	8,015,343
Total liabilities	<u>24,740,367</u>	<u>39,412,008</u>	<u>64,152,375</u>	<u>64,294,423</u>
<b>Net assets:</b>				
Investment in capital assets, net of related debt	75,006,762	11,936,443	86,943,205	81,917,422
Restricted	2,854,224	8,538,929	11,393,153	10,871,255
Unrestricted	<u>8,389,372</u>	<u>573,284</u>	<u>8,962,656</u>	<u>9,725,991</u>
Total net assets	<u>86,250,358</u>	<u>21,048,656</u>	<u>107,299,014</u>	<u>102,514,668</u>
Commitment and contingencies (note 11)				
	<u>\$ 110,990,725</u>	<u>\$ 60,460,664</u>	<u>\$ 171,451,389</u>	<u>\$ 166,809,091</u>

See accompanying notes to financial statements.

# COMMONWEALTH PORTS AUTHORITY

## Statements of Revenues, Expenses and Changes in Net Assets Years Ended September 30, 2003 and 2002 (With Combining Divisional Information for the year ended September 30, 2003)

	Airport Division	Seaport Division	2003	2002
Operating revenues (note 12):				
Aviation fees	\$ 6,202,097	\$ -	\$ 6,202,097	\$ 5,795,044
Seaport fees	-	4,711,365	4,711,365	4,160,611
Concession and lease income (note 11)	3,419,759	844,328	4,264,087	4,003,160
Other	901,903	143,030	1,044,933	1,218,973
Total operating revenues	10,523,759	5,698,723	16,222,482	15,177,788
Operating expenses:				
Depreciation and amortization	5,657,150	2,387,742	8,044,892	7,772,359
Salaries and wages	5,266,154	655,448	5,921,602	6,597,748
Employee benefits	1,598,558	203,055	1,801,613	1,955,243
Insurance	702,629	496,340	1,198,969	1,231,684
Professional fees	240,657	126,409	367,066	655,349
Utilities	306,427	41,581	348,008	350,989
Supplies	319,069	13,589	332,658	419,820
Repairs and maintenance	224,512	82,532	307,044	266,284
Contractual services	178,671	35,050	213,721	215,037
Travel	138,326	26,683	165,009	250,270
Promotion and advertising	21,784	5,730	27,514	68,413
Training	1,859	-	1,859	11,644
Bad debts	-	-	-	294,656
Other	340,912	20,491	361,403	364,045
Total operating expenses	14,996,708	4,094,650	19,091,358	20,453,541
Operating (loss) income	(4,472,949)	1,604,073	(2,868,876)	(5,275,753)
Non-operating revenues (expenses):				
Other income (expense), net	168,798	-	168,798	(14,214)
Interest income	66,585	62,945	129,530	273,259
Interest expense	(798,297)	(2,342,595)	(3,140,892)	(3,172,536)
Amortization of bond issue cost	(24,459)	(32,934)	(57,393)	(57,393)
Total non-operating revenues (expenses), net	(587,373)	(2,312,584)	(2,899,957)	(2,970,884)
Loss before capital contributions	(5,060,322)	(708,511)	(5,768,833)	(8,246,637)
Capital contributions	10,546,285	6,894	10,553,179	15,794,340
Change in net assets	5,485,963	(701,617)	4,784,346	7,547,703
Net assets - beginning	80,764,395	21,750,273	102,514,668	94,966,965
Net assets - ending	\$ 86,250,358	\$ 21,048,656	\$ 107,299,014	\$ 102,514,668

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Cash Flows  
 Years Ended September 30, 2003 and 2002  
 (With Combining Divisional Information for the year ended September 30, 2003)

	Airport Division	Seaport Division	2003	2002
Cash flows from operating activities:				
Cash received from customers	\$ 10,217,782	\$ 5,794,520	\$ 16,012,302	\$ 15,172,083
Cash payments to suppliers for goods and services	(2,290,866)	(870,479)	(3,161,345)	(3,417,157)
Cash payments to employees for services	(6,858,476)	(858,503)	(7,716,979)	(8,602,347)
Net cash provided by operating activities	1,068,440	4,065,538	5,133,978	3,152,579
Cash flows from capital and related financing activities:				
Acquisition of property, plant and equipment	(10,433,434)	(134,618)	(10,568,052)	(14,176,654)
Capital contributions, net	11,643,515	6,894	11,650,409	13,810,771
Principal paid on revenue bond maturities	(310,000)	(510,000)	(820,000)	(770,000)
Additional bond issue costs	-	-	-	(18,000)
Payments on note payable to related party	-	(525,833)	(525,833)	(292,508)
Interest paid on revenue bonds and note payable to related party	(1,176,875)	(2,312,327)	(3,489,202)	(3,564,899)
Net cash used for capital and related financing activities	(276,794)	(3,475,884)	(3,752,678)	(5,011,290)
Cash flows from investing activities:				
Net investment liquidations, unrestricted	1,064,636	43,196	1,107,832	1,141,047
Net investment liquidation (purchases), restricted	440,087	(961,985)	(521,898)	(242,582)
Interest income	66,585	62,945	129,530	273,259
Other income (expense), net	168,798	-	168,798	(14,214)
Net cash provided by (used for) investing activities	1,740,106	(855,844)	884,262	1,157,510
Net increase (decrease) in cash and cash equivalents	2,531,752	(266,190)	2,265,562	(701,201)
Cash and cash equivalents at beginning of year	1,888,706	915,075	2,803,781	3,504,982
Cash and cash equivalents at end of year	\$ 4,420,458	\$ 648,885	\$ 5,069,343	\$ 2,803,781
Reconciliation of operating (loss) income to net cash provided by operating activities:				
Operating (loss) income	\$ (4,472,949)	\$ 1,604,073	\$ (2,868,876)	\$ (5,275,753)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation and amortization	5,657,150	2,387,742	8,044,892	7,772,359
Bad debts	-	-	-	294,656
(Increase) decrease in assets:				
Receivables - operations	190,658	126,760	317,418	(64,231)
Interdivisional accounts	(5,917)	5,917	-	-
Receivables - officers and employees	1,762	-	1,762	3,930
Prepaid expenses	(62,642)	(222)	(62,864)	47,299
Related parties	(496,708)	(30,963)	(527,671)	(64,291)
Increase (decrease) in liabilities:				
Accounts payable - trade and other	91,706	(18,597)	73,109	110,695
Related parties	91,973	14,291	106,264	129,717
Accrued expenses	69,179	(23,463)	45,716	223,983
Deferred income	4,228	-	4,228	(25,785)
Total adjustments	\$ 1,068,440	\$ 4,065,538	\$ 5,133,978	\$ 3,152,579

See accompanying notes to financial statements.

# COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (1) Organization

The Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), was established as a public corporation by CNMI Public Law 2-48, effective November 8, 1981. CPA was given responsibility for operations, maintenance and improvement of all airports and seaports within the CNMI. Both airports and seaports currently exist on the islands of Saipan, Tinian and Rota. CPA is governed by a seven-member Board of Directors, appointed for terms of four years by the Governor of the CNMI.

## (2) Summary of Significant Accounting Policies

The accounting policies of CPA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. CPA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

### Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the statements of net assets. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net assets. The accrual basis of accounting is utilized for proprietary funds. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

### Budgets

In accordance with CNMI Public Law 3-68, the Planning and Budgeting Act of 1983, CPA is required to submit annual budgets to the CNMI Office of the Governor.

### Cash and Cash Equivalents

For the purposes of the statements of net assets and the statements of cash flows, cash and cash equivalents is defined as cash held in demand deposits, savings and time certificates of deposit with a maturity date within three months of the date acquired. As of September 30, 2003 and 2002, total cash and cash equivalents were \$5,069,343 and \$2,803,781, respectively, and the corresponding bank balance was \$4,899,905 and \$2,989,220, respectively. Of the bank balance amount, \$4,899,905 and \$2,989,220, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of \$100,000 were FDIC insured as of September 30, 2003 and 2002. CNMI law does not require component unit funds to be collateralized and thus CPA's funds, in excess of FDIC insurance, are uncollateralized.



# COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (2) Summary of Significant Accounting Policies, Continued

### Capitalization of Interest

CPA capitalizes interest in order to recognize all costs associated with the airport and seaport construction projects based on CPA's weighted average borrowing rate. During the years ended September 30, 2003 and 2002, \$450,988 and \$488,266, respectively, of eligible interest expense was capitalized.

### Investments

CPA values its investments based on fair values in accordance with GASB Statement No. 31. CNMI Public Law 2-48, Section 31, requires that all CPA investments be guaranteed by the CNMI Government or U.S. Government, or be invested in direct obligations, or participation certificates, guaranteed by the U.S. Government.

### Due From/To Airport/Seaport Divisions

Due from/to balances between the Airport and Seaport Divisions, which result from transactions made during the course of operations, are normally liquidated within thirty days and are considered to be current receivables and liabilities.

### Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated at an amount that management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through an allowance for doubtful accounts charged to bad debts expense.

### Property, Plant and Equipment

Property, plant and equipment and construction-in-progress, set forth in note 6, are recorded at cost. Depreciation is provided by using the straight-line method over the estimated useful lives of the assets.

### Deferred Bond Issue Cost

Bond issue costs are treated as a deferred asset and are amortized over the life of the related bond issue.

### Retirement Plan

CPA contributes to the Northern Mariana Islands Retirement Fund (the Fund), a cost-sharing multiple employer defined benefit pension plan administered by the CNMI. The Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the CNMI Government and CNMI agencies, instrumentalities, and public corporations. CNMI Public Law 6-17, the Northern Mariana Retirement Fund Act of 1988 assigns the authority to establish and amend benefit provisions to the Fund's Board of Trustees. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

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## Notes to Financial Statements September 30, 2003 and 2002

### (2) Summary of Significant Accounting Policies, Continued

#### Retirement Plan, Continued

Plan members are required to contribute 6.5% and 9.0% of their annual covered salary for Class I and Class II members, respectively, and CPA is required to contribute at an actuarially determined rate. The current rate is 26.4% of annual covered payroll. The contribution requirements of plan members and CPA are established and may be amended by the Fund's Board of Trustees. CPA's contributions to the Fund for the years ended September 30, 2003, 2002 and 2001 were \$1,475,353, \$1,613,952, and \$1,447,263, respectively, equal to the required contributions for each year.

#### Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated vacation leave liability as of September 30, 2003 and 2002, is \$747,857 and \$745,110, respectively, and is included in accrued expenses in the accompanying financial statements.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.

#### Reclassification

Certain 2002 balances in the accompanying financial statements have been reclassified to conform to the 2003 presentation.

### (3) Receivables From Federal Grantor Agencies

Receivables from the U.S. Department of Transportation and the U.S. Department of the Interior as of September 30, 2003 and 2002, are as follows:

	<u>2003</u>	<u>2002</u>
<u>U.S. Department of Transportation</u>		
<u>Federal Aviation Administration</u>		
Saipan International Airport, AIP Project No. 3-69-0002-19/29	\$ -	\$ 186,230
Saipan International Airport, AIP Project No. 3-69-0002-24	-	39,171
Saipan International Airport, AIP Project No. 3-69-0002-28	-	356,041
Saipan International Airport, AIP Project No. 3-69-0002-30	-	236,680
Saipan International Airport, AIP Project No. 3-69-0002-31	17,443	19,998
Saipan International Airport, AIP Project No. 3-69-0002-32	20,795	29,999
Saipan International Airport, AIP Project No. 3-69-0002-33	155,572	153,606

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Notes to Financial Statements  
September 30, 2003 and 2002

(3) Receivables From Federal Grantor Agencies, Continued

	<u>2003</u>	<u>2002</u>
<u>U.S. Department of Transportation</u>		
<u>Federal Aviation Administration, Continued</u>		
Saipan International Airport, AIP Project No. 3-69-0002-35	18,104	-
Saipan International Airport, AIP Project No. 3-69-0002-38	20,133	-
Saipan International Airport, AIP Project No. 3-69-0002-39	140,976	-
Saipan International Airport, AIP Project No. 3-69-0002-40	-	113,785
Saipan International Airport, AIP Project No. 3-69-0002-45	6,856	-
Rota International Airport, AIP Project No. 3-69-0003-12	-	40,527
Rota International Airport, AIP Project No. 3-69-0003-13	(40,811)	-
Rota International Airport, AIP Project No. 3-69-0003-14	10,687	-
Rota International Airport, AIP Project No. 3-69-0003-15	3,210	-
Tinian International Airport, AIP Project No. 3-69-0011-09	77,659	-
Tinian International Airport, AIP Project No. 3-69-0011-10	-	555,857
<u>Transportation Security Administration</u>		
Security reimbursement	84,393	90,650
<u>U.S. Department of the Interior</u>		
Tinian Runway Project	1,606,082	1,395,785
	<u>\$ 2,121,099</u>	<u>\$ 3,218,329</u>

Amounts due from the above agencies represent reimbursements due under grants for costs incurred for improvements of the CNMI airports. Generally, under the grant agreements, the grantor agency funds a portion of the allowable costs incurred, ranging from 80% to 100%, with the remainder of project costs, if any, funded by CPA or other sources.

(4) Investments

Unrestricted investments are carried at fair value. These investments are held in fixed income securities funds, U.S. Government securities, U.S. Government money market funds, time certificates of deposit and cash management funds as of September 30, 2003 and 2002.

Investments restricted for construction and debt service purposes represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds both issued on March 26, 1998, deposited with the Trustee. The Trustee is a commercial lending institution, and the securities are held in the name of CPA.

	<u>2003</u>	<u>2002</u>
<u>Airport Investments</u>		
Bond Reserve Fund	\$ 1,624,210	\$ 1,608,297
Construction Fund	1,037,589	1,495,097
Bond Fund	137,516	158,538
Maintenance and Operation	<u>54,909</u>	<u>32,379</u>
	<u>\$ 2,854,224</u>	<u>\$ 3,294,311</u>

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Notes to Financial Statements  
September 30, 2003 and 2002

(4) Investments, Continued

	<u>2003</u>	<u>2002</u>
<u>Seaport Investments</u>		
Bond Reserve Fund	\$ 2,683,739	\$ 2,657,549
Supplemental Reserve Fund	5,578,761	4,854,939
Reimbursement Fund	5,104	5,068
Bond Fund	267,957	13,804
Maintenance and Operation	<u>3,368</u>	<u>45,584</u>
	<u>\$ 8,538,929</u>	<u>\$ 7,576,944</u>

At September 30, 2003 and 2002, investments held in these funds consist of U.S. Government securities and U.S. Government money market funds. These investments are presented at fair value. Total investments of CPA are insured to \$100,000 with the remaining balance being uninsured as of September 30, 2003 and 2002.

CPA's investments at fair value, as of September 30, 2003 and 2002, are summarized below:

	<u>2003</u>	<u>2002</u>
<u>Airport Division</u>		
Short-term investments, unrestricted:		
Cash management fund	\$ 1,020,684	\$ 1,022,744
U.S. Government money market fund	<u>1,416,950</u>	<u>2,479,526</u>
	<u>2,437,634</u>	<u>3,502,270</u>
Investments, restricted:		
U.S. Government money market fund	2,854,224	1,686,968
U.S. Government securities	<u>-</u>	<u>1,607,343</u>
	<u>2,854,224</u>	<u>3,294,311</u>
Total Airport Division	<u>\$ 5,291,858</u>	<u>\$ 6,796,581</u>

Seaport Division

Short-term investments, unrestricted:		
Cash management fund	\$ <u>86,835</u>	\$ <u>130,031</u>
	<u>86,835</u>	<u>130,031</u>
Investments, restricted:		
U.S. Government securities	-	2,639,855
U.S. Government money market fund	<u>8,538,929</u>	<u>4,937,089</u>
	<u>8,538,929</u>	<u>7,576,944</u>
Total Seaport Division	<u>\$ 8,625,764</u>	<u>\$ 7,706,975</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

(4) Investments, Continued

CPA's investments are categorized as either (1) insured or registered for which the securities are held by CPA or its agent in CPA's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in CPA's name, or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in CPA's name. All of CPA's investments are classified in category (2).

(5) Accounts Receivable from Operations

CPA extends credit to organizations and individuals, substantially all of whom are located in the CNMI, Japan, the United States and Korea. CPA's accounts receivable from operations as of September 30, 2003 and 2002, are summarized below (with combining information as of September 30, 2003):

	<u>Airport Division</u>	<u>Seaport Division</u>	<u>Totals</u>	
			<u>2003</u>	<u>2002</u>
Accounts receivable	\$ 1,825,173	\$ 1,516,099	\$ 3,341,272	\$ 3,639,356
Less allowance for doubtful accounts	<u>(164,597)</u>	<u>(1,146,919)</u>	<u>(1,311,516)</u>	<u>(1,311,516)</u>
	<u>\$ 1,660,576</u>	<u>\$ 369,180</u>	<u>\$ 2,029,756</u>	<u>\$ 2,327,840</u>

(6) Property, Plant and Equipment

Property, plant and equipment and construction-in-progress balances consist of the following as of September 30, 2003 and 2002:

	<u>2003</u>			<u>2002</u>		
	<u>Airport</u>	<u>Seaport</u>	<u>Total</u>	<u>Airport</u>	<u>Seaport</u>	<u>Total</u>
Runway and improvements	\$ 38,377,087	\$ -	\$ 38,377,087	\$ 38,345,832	\$ -	\$ 38,345,832
Other improvements	6,238,172	2,790,481	9,028,653	5,614,910	2,072,854	7,687,764
Terminal facilities	62,029,814	-	62,029,814	61,642,303	-	61,642,303
Terminal equipment	8,665,351	-	8,665,351	8,638,083	-	8,638,083
Harbor facilities	-	61,826,127	61,826,127	-	61,810,458	61,810,458
Grounds maintenance and shop equipment	442,841	62,729	505,570	436,625	62,729	499,354
Fire and rescue equipment	2,448,255	-	2,448,255	2,433,319	-	2,433,319
Office furniture and fixtures	694,469	116,039	810,508	651,934	109,644	761,578
General transportation	768,107	45,871	813,978	768,107	59,871	827,978
Other	-	606,351	606,351	-	572,725	572,725
	<u>119,664,096</u>	<u>65,447,598</u>	<u>185,111,694</u>	<u>118,531,113</u>	<u>64,688,281</u>	<u>183,219,394</u>
Less accumulated depreciation	<u>(64,060,041)</u>	<u>(16,014,282)</u>	<u>(80,074,323)</u>	<u>(58,402,891)</u>	<u>(13,638,895)</u>	<u>(72,041,786)</u>
	55,604,055	49,433,316	105,037,371	60,128,222	51,049,386	111,177,608
Land	-	464,429	464,429	-	464,429	464,429
Construction-in-progress	<u>37,276,245</u>	<u>-</u>	<u>37,276,245</u>	<u>26,644,444</u>	<u>651,543</u>	<u>27,295,987</u>
Property, plant and equipment, net	<u>\$ 92,880,300</u>	<u>\$ 49,897,745</u>	<u>\$ 142,778,045</u>	<u>\$ 86,772,666</u>	<u>\$ 52,165,358</u>	<u>\$ 138,938,024</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

(6) Property, Plant and Equipment, Continued

CPA leases significant portions of airport terminal facilities and certain grounds and improvements to concessionaires, airlines, and other lessees. CPA additionally holds title to 13,646,163 square meters of land on the islands of Saipan, Tinian and Rota for seaport and airport operations. No value for this land has been recorded on CPA's books as an appraisal has not been performed.

Land acquired by CPA on the islands of Saipan and Rota from the former Marianas Public Land Corporation for seaport improvement and use has been recorded on CPA's books at its estimated fair market value. This estimated value is based on a land valuation established by Article VIII of the Marianas Political Status Commission as contained in the Section-by-Section Analysis of the Covenant to Establish a Commonwealth of the Northern Mariana Islands, dated February 15, 1975, for land of a similar nature leased by the CNMI to the U.S. Government.

(7) Revenue Bonds Payable

Airport

On March 26, 1998, CPA issued \$20,050,000 of tax-exempt airport revenue bonds which in part was used for a current refunding of \$8,250,000 of 1987 Series B tax-exempt airport revenue bonds. The refunding was undertaken to consolidate existing bonds with new bonds issued for the purpose of financing various airport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$503,906. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of \$688,620 and an increase of \$7,616,151 in future debt service payments.

Interest on the bonds is payable semi-annually at 6.25% on March 15 and September 15 of each year. Revenue bonds payable as of September 30, 2003 and 2002, consist of the following:

	<u>2003</u>	<u>2002</u>
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2003 and 2028 are listed below.	\$ 18,675,000	\$ 18,985,000
Deferred costs of debt refunding	<u>(157,536)</u>	<u>(229,946)</u>
	18,517,464	18,755,054
Current portion	<u>330,000</u>	<u>310,000</u>
Long-term portion	<u>\$ 18,187,464</u>	<u>\$ 18,445,054</u>

Installments payable by CPA to the Bond Trustee, and applicable interest, through the life of the 1998 Series A, Airport Revenue Bonds, are due on March 15 as follows:

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

(7) Revenue Bonds Payable, Continued

Airport, Continued

<u>Year</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest</u>
2004	\$ 330,000	\$ 1,156,875	2017	\$ 720,000	\$ 750,625
2005	\$ 350,000	\$ 1,135,625	2018	\$ 770,000	\$ 704,063
2006	\$ 370,000	\$ 1,113,125	2019	\$ 815,000	\$ 654,531
2007	\$ 395,000	\$ 1,089,219	2020	\$ 865,000	\$ 602,031
2008	\$ 420,000	\$ 1,063,750	2021	\$ 920,000	\$ 546,250
2009	\$ 445,000	\$ 1,036,719	2022	\$ 980,000	\$ 486,875
2010	\$ 475,000	\$ 1,007,969	2023	\$ 1,040,000	\$ 423,750
2011	\$ 500,000	\$ 977,500	2024	\$ 1,105,000	\$ 356,719
2012	\$ 535,000	\$ 945,156	2025	\$ 1,175,000	\$ 285,469
2013	\$ 565,000	\$ 910,781	2026	\$ 1,245,000	\$ 209,844
2014	\$ 600,000	\$ 874,375	2027	\$ 1,325,000	\$ 129,531
2015	\$ 640,000	\$ 835,625	2028	\$ 1,410,000	\$ 44,063
2016	\$ 680,000	\$ 794,375			

The 1998 Senior Series A bonds are limited obligations of CPA and, except to the extent payable from Bond proceeds, are payable solely out of CPA's revenues, assets and funds pledged under the Indenture.

The 1998 Senior Series A bonds are subject to redemption prior to their respective stated maturities on or after March 15, 2013, at the option of CPA, from any source of available funds, as a whole on any date, or in part on any interest payment date and by lot within a maturity, at the Redemption Prices (expressed as percentages of principal amount) set forth in the table below plus interest accrued thereon to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
March 15, 2013 through March 14, 2014	102%
March 15, 2014 through March 14, 2015	101%
March 15, 2015 and thereafter	100%

Seaport

On March 26, 1998, CPA issued \$33,775,000 of Senior Series A tax-exempt seaport revenue bonds which in part were used for a current refunding of \$22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$1,345,593. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of \$1,724,777 and a decrease of \$6,983,345 in future debt service payments.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

(7) Revenue Bonds Payable, Continued

Seaport, Continued

Interest on the bonds is payable semi-annually at 6.6% on March 15 and September 15 of each year. Revenue bonds payable as of September 30, 2003 and 2002, consist of the following:

	<u>2003</u>	<u>2002</u>
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2003 and 2028 are listed below.	\$ 31,510,000	\$ 32,020,000
Deferred costs of debt refunding	<u>(1,204,637)</u>	<u>(1,234,905)</u>
	30,305,363	30,785,095
Current portion	<u>545,000</u>	<u>510,000</u>
Long-term portion	<u>\$ 29,760,363</u>	<u>\$ 30,275,095</u>

Installments payable by CPA to the Bond Trustee, and applicable interest, through the life of the 1998 Senior Series A, Special Revenue Bonds, are due on March 15 as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest</u>
2004	\$ 545,000	\$ 2,061,675	2017	\$ 1,215,000	\$ 1,345,575
2005	\$ 575,000	\$ 2,024,715	2018	\$ 1,295,000	\$ 1,262,745
2006	\$ 615,000	\$ 1,985,445	2019	\$ 1,375,000	\$ 1,174,635
2007	\$ 655,000	\$ 1,943,535	2020	\$ 1,465,000	\$ 1,080,915
2008	\$ 695,000	\$ 1,898,985	2021	\$ 1,560,000	\$ 981,090
2009	\$ 740,000	\$ 1,851,630	2022	\$ 1,660,000	\$ 874,830
2010	\$ 785,000	\$ 1,801,305	2023	\$ 1,765,000	\$ 761,805
2011	\$ 840,000	\$ 1,747,680	2024	\$ 1,875,000	\$ 641,685
2012	\$ 890,000	\$ 1,690,590	2025	\$ 1,995,000	\$ 513,975
2013	\$ 950,000	\$ 1,629,870	2026	\$ 2,125,000	\$ 378,015
2014	\$ 1,010,000	\$ 1,565,190	2027	\$ 2,260,000	\$ 233,310
2015	\$ 1,075,000	\$ 1,496,385	2028	\$ 2,405,000	\$ 79,365
2016	\$ 1,140,000	\$ 1,423,290			

Additionally, CPA has resolved to deposit \$700,000 annually into the Seaport supplemental reserve fund (beginning in 2001 and ending in 2005) until \$8,000,000 is deposited into such fund.

The 1998 Senior Series A bonds are limited obligations of CPA and, except to the extent payable from Bond proceeds, are payable solely out of CPA's revenues and funds pledged under the Indenture.

The 1998 Senior bonds are subject to redemption prior to their stated maturity, at the option of CPA, as a whole or in part by lot, on any date from the proceeds of available funds, the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.



COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

(7) Revenue Bonds Payable, Continued

Seaport, Continued

The bond indentures contain several restrictive covenants, including restrictions on the use of bond proceeds. Management of CPA is of the opinion that CPA was in compliance with all significant covenants as of September 30, 2003, except for the collection of gross revenues requirement related to the Airport bond indenture. Section 6.11 of the Airport Bond Indenture Agreement (Indenture) states that CPA shall impose, levy and collect such fees, tariffs, lease rentals, licensing fees and other fees and charges in aggregate amount with respect to each fiscal year to produce gross revenues to comply with subsections (A)(1), (A)(2), (A)(3) and (A)(4) of Section 6.11. CPA was not in compliance with Section 6.11 of the Airport and Seaport bond indentures at September 30, 2002.

Section 6.11(B) of the Indenture states that if the financial statements prepared pursuant to Section 6.06(B) of the Indenture reflect that at the end of a fiscal year, net revenues are less than the amount required by Section 6.11(A) for such fiscal year or if the revenues are less than the aggregate amount of all transfers required by Section 5.02(a) through (e) for such fiscal year, CPA shall not be in default under Section 7.01 if within sixty days after the date of such financial statements or the end of the fiscal year, CPA shall employ an independent consultant to make recommendations as to a revision of the rates, fees and charges or the methods of operation of the airports. If such recommendations fail to meet the requirements of Section 6.11(a), such deficiency will constitute an event of default under Section 7.01. In accordance with Section 7.01, CPA hired an independent consultant during the year ended September 30, 2003.

(8) Notes Payable to Related Party

CPA's note payable is as follows:

	<u>2003</u>	<u>2002</u>
Promissory note due to the Commonwealth Development Authority (CDA) (a component unit of the CNMI), interest at 2.5% per annum, with maturity date of November 16, 2014. Principal and interest payments in the amount of \$204,113 are due quarterly.	\$ 8,540,815	\$ 9,066,648
Less amounts due within one year	<u>(1,147,341)</u>	<u>(1,051,305)</u>
Long-term debt	<u>\$ 7,393,474</u>	<u>\$ 8,015,343</u>

On February 4, 2003, CDA's Board of Directors authorized the following deferment program for CPA's loans to CDA:

- CPA will make immediate payment of fifty percent of the amount outstanding as of February 4, 2003.
- For the remainder of Fiscal Year 2003, CPA will reduce its quarterly payments by fifty percent.
- The term of the loan will be extended to accommodate the above payment deferral.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

(8) Notes Payable to Related Party, Continued

As of September 30, 2003, an amendment to the loan agreement has not been signed by both CPA and CDA. Accordingly, amounts in arrears are included as current at September 30, 2003.

The CDA obligation is subordinate to CPA's obligation for the Seaport bonds.

Principal and interest payments for subsequent years ending September 30, are as follows:

<u>Year ending September 30,</u>	<u>Principal Amount</u>	<u>Interest</u>
2004	\$ 1,147,341	\$ 383,147
2005	637,562	178,891
2006	653,652	162,802
2007	670,146	146,306
2008	687,058	129,395
Subsequent years	<u>4,745,056</u>	<u>398,082</u>
	<u>\$ 8,540,815</u>	<u>\$ 1,398,623</u>

(9) Risk Management

CPA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CPA has elected to purchase commercial insurance from independent third parties for the risks of losses at its airport facilities to which it is exposed. CPA has also elected to purchase partial commercial insurance from independent third parties for risk of losses at its Seaport facilities to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(10) Related Party Transactions

Total related party transactions for the years ended September 30, 2003 and 2002, and the related receivable and payable balances, are as follows:

	2003			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Commonwealth Development Authority	\$ -	\$ 209,891	\$ -	\$ -
Commonwealth Utilities Corporation	-	348,008	3,736,488	20,269
CNMI Government	-	106,649	-	840,740
Northern Mariana Islands Retirement Fund	-	-	-	-
Other	<u>11,449</u>	<u>1,475,353</u>	<u>30,963</u>	<u>-</u>
	<u>\$ 11,449</u>	<u>\$ 2,139,901</u>	<u>\$ 3,767,451</u>	<u>\$ 861,009</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

(10) Related Party Transactions, Continued

	2002			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Commonwealth Development Authority	\$ -	\$ 283,315	\$ -	\$ -
Commonwealth Utilities Corporation	-	350,989	3,239,780	20,654
CNMI Government	-	125,334	-	734,091
Northern Mariana Islands Retirement Fund	-	1,613,952	-	-
Other	<u>9,679</u>	<u>-</u>	<u>19,334</u>	<u>-</u>
	<u>\$ 9,679</u>	<u>\$ 2,373,590</u>	<u>\$ 3,259,114</u>	<u>\$ 754,745</u>

A note payable to CDA amounted to \$8,540,815 and \$9,066,648 at September 30, 2003 and 2002, respectively. Interest expense on this note for the years ended September 30, 2003 and 2002 amounted to \$209,891 and \$283,315, respectively.

On November 9, 1998, a Memorandum of Agreement (MOA) was executed between CPA and the Commonwealth Utilities Corporation (CUC) specifying terms and conditions of a Sewerline Project. It has been determined that 29.4% of the total cost of the project (\$4,887,808) is attributable to CPA, with the remaining 70.6% attributable to CUC. Based on the MOA, CPA, as signatory party to the project contract, will pay for all progress payments, subject to reimbursement by CUC, for the portion of the project costs that CUC has agreed to be responsible for. An amended MOA, dated April 14, 1999, states that the project will be transferred to CUC upon completion and at that time a note receivable will evidence CUC's share of the project cost. The total cost of the project incurred amounted to \$5,862,043 and \$5,046,939 as of September 30, 2003 and 2002, respectively.

The total cost of the project includes liquidated damages of \$125,000 at September 30, 2003 and 2002, respectively, representing CUC's share. In addition, it also includes \$44,034 already billed to CUC. During the years ended September 30, 2003 and 2002, CPA allocated capitalized interest of \$111,555 and \$528,407, respectively, to the project. The MOA does not address whether 70.6% of the total interest capitalized should be charged to CUC's overall share of the project cost. Accordingly, the amount receivable from CUC does not include capitalized interest. The project is in progress and, accordingly, 29.4% is recorded as construction in progress and 70.6% is recorded as receivable from related party, noncurrent, at September 30, 2003 and 2002. The project is expected to be completed in December 2003.

The Seaport Division recorded accounts receivable amounting to \$30,963 and \$19,334 at September 30, 2003 and 2002, respectively, from a company in which a Board member has interest.

# COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (11) Commitment and Contingencies

### Commitment

CPA's Airport Division leases rental car concession booths, office space, other ground space, and an electronic scanning device. The Seaport Division leases land and warehouse space. Lease terms range from one to fifteen years and in most instances contain provisions for percentage rent. Concession and lease income for the years ended September 30, 2003 and 2002, amounted to \$4,264,087 and \$4,003,160, respectively. Minimum future lease income is as follows:

<u>Year ending September 30,</u>	<u>Minimum Lease Income Due</u>
2004	\$ 1,730,882
2005	1,411,429
2006	1,062,382
2007	917,632
2008	742,628
Thereafter	<u>13,102,857</u>
	<u>\$ 18,967,810</u>

### Contingencies

CPA participated in a federally assisted grant from the United States Department of the Interior related to the Saipan Harbor Improvement Project. Federally assisted grants can be subject to financial and compliance audits to ascertain if federal laws and guidelines have been followed. The United States Department of the Interior, Office of the Inspector General, in its audit report "Saipan Harbor Improvement Project, Commonwealth Ports Authority, Commonwealth of the Northern Mariana Islands", dated September 2003, has questioned \$460,000 related to a grant from the United States Department of the Interior, Office of Insular Affairs. If these costs are ultimately denied, CPA could be charged for the necessary reimbursement to the grantor agency.

CPA incurred a combined loss before capital contributions and transfers from its two divisions of \$5,768,833 during the year ended September 30, 2003. Management's plans to increase revenues and/or decrease costs are as follows:

- a) Implement cost cutting measures - The Board of Directors approved and initiated the implementation of certain austerity measures in an attempt to reduce operating costs.
- b) Explore non-aviation revenue generating options.
- c) Implement Passenger Facility charge.
- d) Explore more favorable debt service terms.

Management believes that these efforts will be successful in reducing future losses of CPA.

# COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2003 and 2002

## (12) Major Customers

Aviation fees received by CPA are comprised of facility service charges and landing fees from air carriers providing scheduled flight service to Saipan, substantially all of which are located in the CNMI, Japan, United States and Korea. Seaport fees received by CPA are primarily comprised of wharfage fees on cargo from the CNMI, Japan, United States, the Philippines and other Asian countries. Lease revenue is derived primarily from Saipan International Airport's prime concessionaire which is located in the CNMI.