

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>
Current assets:				
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>
Other assets:				
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>
Noncurrent assets:				
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>
<u>LIABILITIES AND NET ASSETS</u>				
Current liabilities:				
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>
Net assets:				
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	<u>10,523,759</u>	<u>5,698,723</u>	<u>16,222,482</u>	<u>15,177,788</u>
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	<u>14,996,708</u>	<u>4,094,650</u>	<u>19,091,358</u>	<u>20,453,541</u>
Operating (loss) income	<u>(4,472,949)</u>	<u>1,604,073</u>	<u>(2,868,876)</u>	<u>(5,275,753)</u>
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	<u>(587,373)</u>	<u>(2,312,584)</u>	<u>(2,899,957)</u>	<u>(2,970,884)</u>
Loss before capital contributions	(5,060,322)	(708,511)	(5,768,833)	(8,246,637)
Capital contributions	<u>10,546,285</u>	<u>6,894</u>	<u>10,553,179</u>	<u>15,794,340</u>
Change in net assets	5,485,963	(701,617)	4,784,346	7,547,703
Net assets - beginning	<u>80,764,395</u>	<u>21,750,273</u>	<u>102,514,668</u>	<u>94,966,965</u>
Net assets - ending	<u>\$ 86,250,358</u>	<u>\$ 21,048,656</u>	<u>\$ 107,299,014</u>	<u>\$ 102,514,668</u>

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	<u>1,068,440</u>	<u>4,065,538</u>	<u>5,133,978</u>	<u>3,152,579</u>
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	<u>(276,794)</u>	<u>(3,475,884)</u>	<u>(3,752,678)</u>	<u>(5,011,290)</u>
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	<u>1,740,106</u>	<u>(855,844)</u>	<u>884,262</u>	<u>1,157,510</u>
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	<u>\$ 4,420,458</u>	<u>\$ 648,885</u>	<u>\$ 5,069,343</u>	<u>\$ 2,803,781</u>
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	<u>\$ 1,068,440</u>	<u>\$ 4,065,538</u>	<u>\$ 5,133,978</u>	<u>\$ 3,152,579</u>

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.

# COMMONWEALTH PORTS AUTHORITY

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>
<u>Seaport Division</u>		
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>

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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	(1,147,341)	(1,051,305)
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.



# COMMONWEALTH PORTS AUTHORITY

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## Commonwealth Ports Authority

### Management's Discussion and Analysis (MD&A) FY2003 Audited Financial Statement

#### Introduction

The "Management's Discussion and Analysis (MD&A)" report is intended to provide an overview of the audited financial activities of the Commonwealth Ports Authority for the FY2003 period from October 1, 2002 to September 30, 2003.

The nationally recognized accounting firm of Deloitte & Touche issued a clean unqualified audit opinion and certified that the Authority's audited FY2003 financial statements were prepared in accordance with generally accepted accounting principles (GAAP) governed by the Governmental Accounting Standards Board (GASB).

The "Management's Discussion and Analysis" report is a new report required by GASB to be included with the basic financial statements and notes.

The Commonwealth Ports Authority is a component unit of the Government of the Commonwealth of Northern Marianas Islands (CNMI) and was established as a public corporation on November 8, 1981 by CNMI Public Law 2-48. A seven-member Board of Directors, appointed by the Governor to serve four-year terms, governs the Commonwealth Ports Authority.

The Commonwealth Ports Authority is tasked with the responsibility to operate, maintain, and improve all airports and seaports within the CNMI. Airport and seaport facilities currently exist in the islands of Saipan, Tinian, and Rota.

#### Adoption of new GASB accounting standards

The Commonwealth Ports Authority was required to adopt the following GASB standards, by the fiscal year ending on September 30, 2002,

- ◇ GASB Statement No. 33,
  - *Accounting and Financial Reporting for Non-Exchange Transactions*, and
- ◇ GASB Statement No. 34,
  - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*.

The objective of GASB Statements 33 and 34 is

- "to enhance the understandability and usefulness of the general purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies and investors and creditors."

GASB Statement No. 33, "*Accounting and Financial Reporting for Non-Exchange Transactions*" require:

- non-exchange transactions, such as federal and state capital grants and contributions, to be recognized as non-operating revenue on the Statement of Revenues, Expenses, and Changes in Net Assets.

In prior years, capital grants and contributions were recorded as a direct increase to contributions in the equity section of the statement of net assets. Because of GASB 33, contributed capital and retained earnings as of October 1, 2001 have been restated from the amounts previously reported.

The Commonwealth Ports Authority was required to adopt GASB Statement No. 34, as amended by GASB Statements No. 37 and 38, in fiscal year 2002.

### **Changes in the Format of the Financial Statements**

These GASB statements established financial reporting standards for governmental entities and brought about major changes in the format of the financial reports.

Audited financial statements for the Commonwealth Ports Authority now consists of three new financial statement formats due to the adoption of new GASB standards.

- 1) Statement of Net Assets  
(replaces the Balance Sheet in prior reports)
- 2) Statement of Revenues, Expenses, and Changes in Net Assets  
(replaces the Statement of Revenues, Expenses, and Changes in Fund Equity format used in previous reports.)
- 3) Statement of Cash Flows.

### **Statement of Net Assets**

The Statement of Net Assets replaces the Balance Sheet statement used in previous financial reports.

The Statement of Net Assets presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. The entire equity section is combined to report total net assets.

Net assets consist of restricted net assets, unrestricted net assets and investment in capital assets, net of accumulated depreciation and reduced by any related debt.

Contributed capital earlier reported as a separate category is eliminated.

Retained earnings have been reclassified into unrestricted net assets.

The Authority operates on an accrual basis wherein:

- revenues are recognized when earned, not when received and
- expenses are recorded when incurred, not when paid.

Capital assets, except for land, are capitalized and depreciated over its useful life. Further information is provided in the footnotes accompanying the audited financial statements of the Authority.

## **Statement of Revenues, Expenses, and Changes in Net Assets**

The Statement of Revenues, Expenses, and Changes in Net Assets replace the Statement of Revenues, Expenses, and Changes in Fund Equity format used in previous reports.

The Statement of Revenues, Expenses, and Changes in Net Assets present information showing how the Authority's net assets changed during FY2003 and FY2002.

All changes in net assets are reported as soon as the underlying event giving raise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods.

## **Statement of Cash Flows**

The Statement of Cash Flows relates to the flows of cash and cash equivalents. Transactions that affect CPA's cash account are recorded in the Statement of Cash Flows.



## Management, Discussion & Analysis Report For Airport Division

### Enplanement Trends in Airport Passenger Traffic (Saipan International Airport)

Enplanement, at the Saipan International Airport, increased by 7%, or 32,630 passengers, in FY2003 when compared to FY2002.

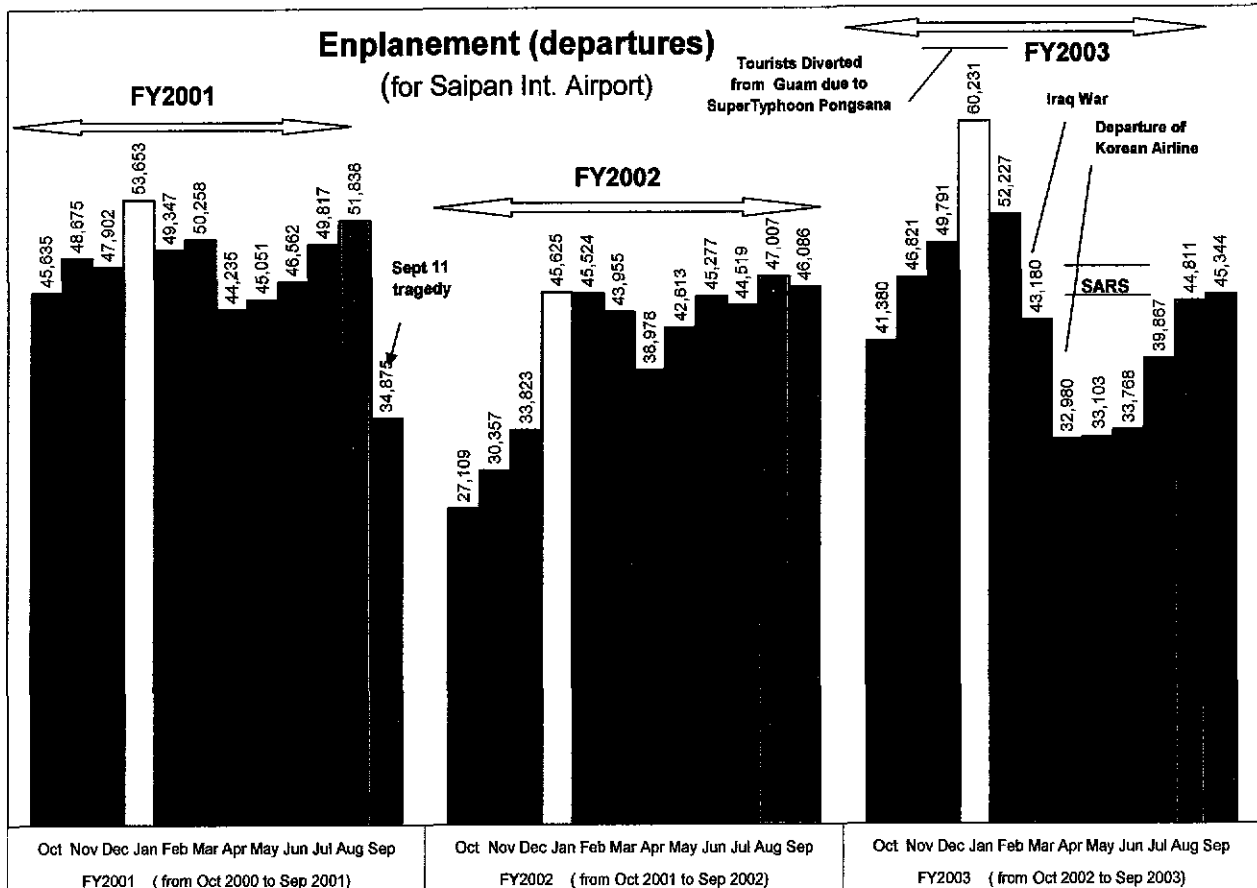
The bulk of the increase occurred during the first five months of FY2003 when the CNMI received an influx of tourists who were diverted from Guam after Typhoon Pongsana.

The Iraq War in March 2003, Korean Air's departure in April 2003, and the SARS outbreak from April 2003 to July 2003 caused drops in enplanement during these months.

However, tourism rebounded strongly in the last two months of FY2003 evidencing the recovery of the CNMI's tourism industry. The recovery is expected to carry into FY2004 with increased flights and passenger loads.

#### Enplanement (Departures)

	FY2001	FY2002	FY2003
October	45,635	27,109	41,380
November	48,675	30,357	46,821
December	47,902	33,823	49,791
January	53,653	45,625	60,231
February	49,347	45,524	52,227
March	50,258	43,955	43,180
April	44,235	38,978	32,980
May	45,051	42,613	33,103
June	46,562	45,277	33,768
July	49,817	44,519	39,867
August	51,838	47,007	44,811
September	34,875	46,086	45,344
<b>TOTAL</b>	<b>567,848</b>	<b>490,873</b>	<b>523,503</b>
annual change		-76,975	32,630
annual % change		-14%	7%



## Airport Activity (All Airports)

	FY2001	FY2002	FY2003
(Figures are for all Airports Combined)			
Enplanement (departures)	643,139	554,794	585,255
Deplanement (arrivals)	596,700	520,472	585,333
Aircraft Landings	28,785	29,022	26,581
Landing Weight (tons)	569,047	595,937	590,054
Cargo Offloaded (tons)	8,008	6,807	7,097
Cargo Loaded (tons)	9,004	9,618	7,938
Mail Offloaded (tons)	<u>1,158</u>	<u>329</u>	<u>318</u>
<b>Airport Activity</b>	<b>1,855,841</b>	<b>1,716,979</b>	<b>1,802,576</b>

Enplanement and deplanement, as shown in the table above, showed positive growth trends in FY 2003 as compared to FY2002. (These activity figures in the table above are for all airports combined.)

Enplanement increased by 5%.

Deplanement increased by 12%

Overall airport activity showed an increase in FY 2003 as compared to FY2002 and nearly matched the activity levels in FY2001.

Airport Activity for Saipan, Rota and Tinian airports are shown below.

FY2003 Airport Activity	Saipan	Rota	Tinian	Total
Enplanement (departures)	523,503	30,325	31,427	585,255
Deplanement (arrivals)	525,366	30,324	29,643	585,333
Aircraft Landings	14,856	2,540	9,185	26,581
Landing Weight (tons)	540,387	32,037	17,630	590,054
Cargo Offloaded (tons)	6,762	43	292	7,097
Cargo Loaded (tons)	7,819	31	88	7,938
Mail Offloaded (tons)	<u>247</u>	<u>11</u>	<u>60</u>	<u>318</u>
<b>FY2003 Airport Activity</b>	<b>1,618,940</b>	<b>95,311</b>	<b>88,325</b>	<b>1,802,576</b>

FY2002 Airport Activity	Saipan	Rota	Tinian	Total
Enplanement (departures)	490,873	30,585	33,336	554,794
Deplanement (arrivals)	461,155	31,469	27,848	520,472
Aircraft Landings	15,802	3,256	9,964	29,022
Landing Weight (tons)	536,158	39,614	20,165	595,937
Cargo Offloaded (tons)	6,264	180	363	6,807
Cargo Loaded (tons)	9,500	53	65	9,618
Mail Offloaded (tons)	<u>259</u>	<u>28</u>	<u>42</u>	<u>329</u>
<b>FY2002 Airport Activity</b>	<b>1,520,011</b>	<b>105,185</b>	<b>91,783</b>	<b>1,716,979</b>

FY2001 Airport Activity	Saipan	Rota	Tinian	Total
Enplanement (departures)	567,848	36,082	39,209	643,139
Deplanement (arrivals)	528,218	35,928	32,554	596,700
Aircraft Landings	14,938	3,911	9,936	28,785
Landing Weight (tons)	483,459	48,416	37,172	569,047
Cargo Offloaded (tons)	7,373	234	401	8,008
Cargo Loaded (tons)	8,908	46	50	9,004
Mail Offloaded (tons)	<u>1,098</u>	<u>12</u>	<u>48</u>	<u>1,158</u>
<b>FY2001 Airport Activity</b>	<b>1,611,842</b>	<b>124,629</b>	<b>119,370</b>	<b>1,855,841</b>

**Revenues for All Airports**

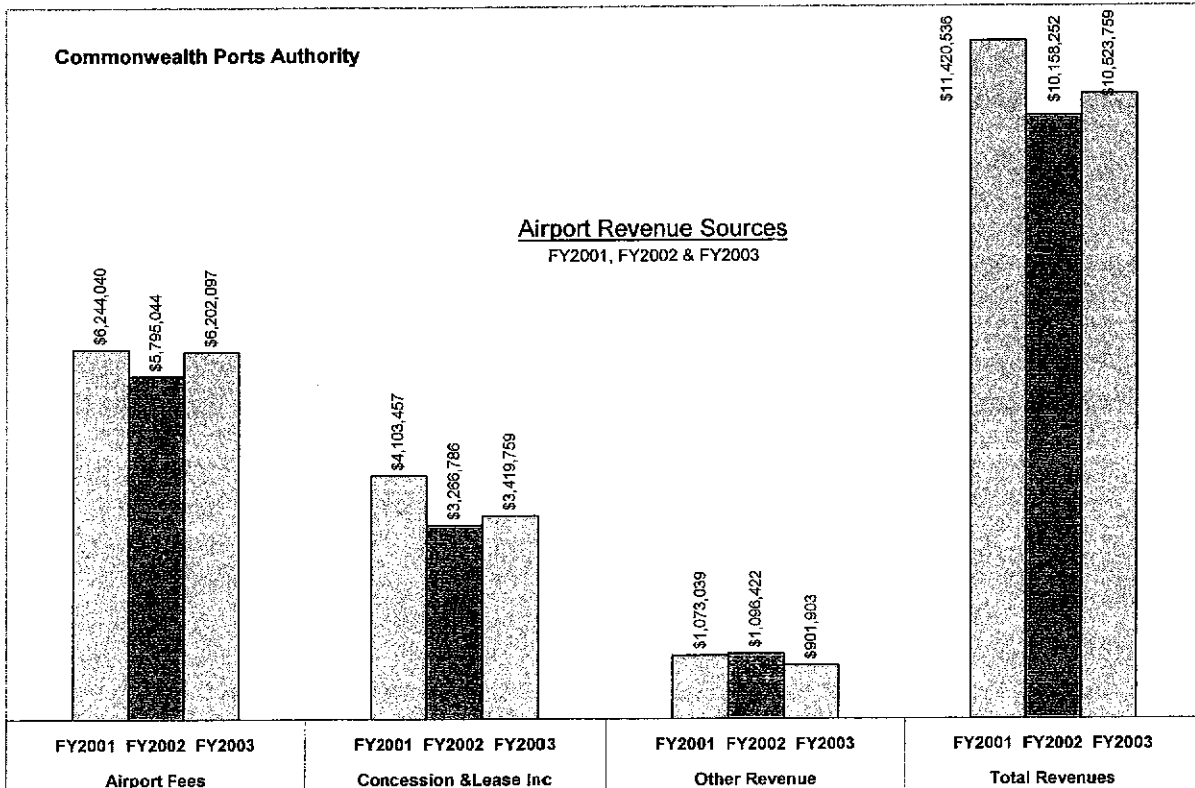
Airport Division revenues for FY2003 increased by 4%, or \$365,507, as compared to the prior year. This increase in airport revenues was brought about by the 7% increase in aviation revenue caused by the 5% increase in enplanement (departures) and the 12% increase in deplanement (arrivals).

Airport Revenues (All Airports Combined)	FY2001 Audited	FY2002 Audited	FY2003 Audited
Airport Fees	\$6,244,040	\$5,795,044	\$6,202,097
Concession & Lease Income	\$4,103,457	\$3,266,786	\$3,419,759
Other Revenue	\$1,073,039	\$1,096,422	\$901,903
<b>Total Revenues</b>	<b>\$11,420,536</b>	<b>\$10,158,252</b>	<b>\$10,523,759</b>

Concession and lease revenues contributed a 5% increase amounting to \$152,973.

The decrease in Other Income was offset by the revenue increases in aviation and concession/lease income.

Revenue growth in FY2003 was impacted by the impact of the Iraq War and the SARS outbreak, which reduced traffic loads for six months. However, passenger rebounded quickly in the remaining two months of FY2003 and continues to FY2004.



Changes in Airport Revenues between FY2003 and prior year

	FY2003 Audited	FY2002 Audited	Change Between FY2003 & FY2002	
Airport Fees	\$6,202,097	\$5,795,044	\$407,053	7%
Concession/Leases	\$3,419,759	\$3,266,786	\$152,973	5%
Other Revenue	\$901,903	\$1,096,422	(\$194,519)	-18%
<b>Total Revenues</b>	<b>\$10,523,759</b>	<b>\$10,158,252</b>	<b>\$365,507</b>	<b>4%</b>

Changes in Airport Revenues between FY2003 and two years ago

Airport Revenues	FY2003 Audited	FY2001 Audited	Change Between FY2003 & FY2001	
Airport Fees	\$6,202,097	\$6,244,040	(\$41,943)	-1%
Concession/Leases	\$3,419,759	\$4,103,457	(\$683,698)	-17%
Other Revenue	\$901,903	\$1,073,039	(\$171,136)	-16%
<b>Total Revenues</b>	<b>\$10,523,759</b>	<b>\$11,420,536</b>	<b>(\$896,777)</b>	<b>-8%</b>

## Revenues for Airports on Saipan, Rota, and Tinian

The Saipan International Airport contributed 94% of total FY2003 airport revenues.

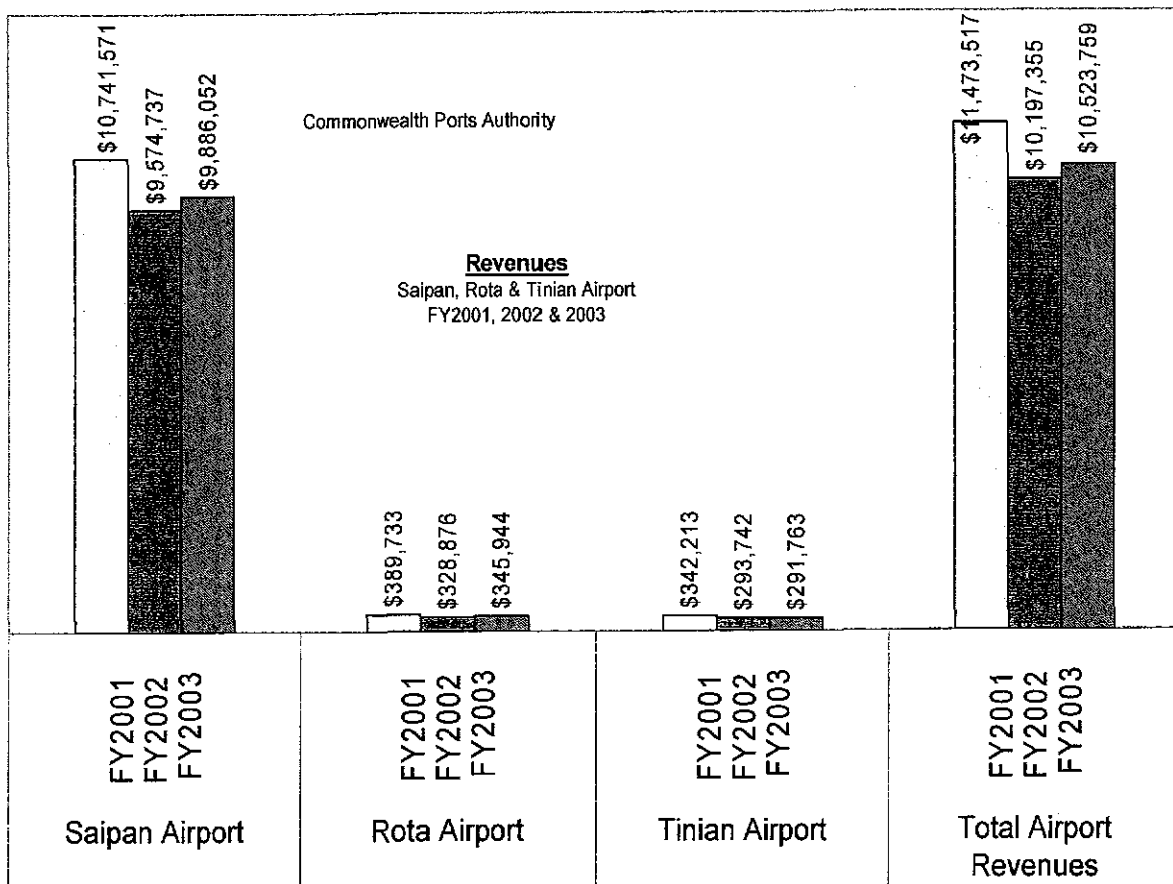
Airport revenues increased in the first half of FY2003 due to strong tourism growth and the

influx of tourists diverted to the CNMI from Guam. This helped to partially offset the negative effects caused by the Iraq War and the 4-month SARS outbreak in FY2003.

The airport revenue performance in FY2003 nearly reached FY2001 revenue levels by coming to within 8%, signaling the signs of a strong recovery in passenger traffic.

Revenues for Saipan, Rota & Tinian Airports

	FY2001	FY2002	FY2003
Saipan Airport	\$10,741,571	\$9,574,737	\$9,886,052
Rota Airport	\$389,733	\$328,876	\$345,944
Tinian Airport	\$342,213	\$293,742	\$291,763
<b>Total Revenues</b>	<b>\$11,473,517</b>	<b>\$10,197,355</b>	<b>\$10,523,759</b>



Revenue Change between FY2003 and last year

	FY2002	FY2003	Difference	%
Saipan Airport	\$9,574,737	\$9,886,052	\$311,315	3%
Rota Airport	\$328,876	\$345,944	\$17,068	5%
Tinian Airport	\$293,742	\$291,763	-\$1,979	-1%
<b>Total Revenues</b>	<b>\$10,197,355</b>	<b>\$10,523,759</b>	<b>\$326,404</b>	<b>3%</b>

Revenue Change between FY2003 and 2 Years Ago

	FY2001	FY2003	Difference	%
Saipan Airport	\$10,741,571	\$9,886,052	-\$855,519	-8%
Rota Airport	\$389,733	\$345,944	-\$43,789	-11%
Tinian Airport	\$342,213	\$291,763	-\$50,450	-15%
<b>Total Revenues</b>	<b>\$11,473,517</b>	<b>\$10,523,759</b>	<b>-\$949,758</b>	<b>-8%</b>

**Operating Expenses for the Airports**

Cost control measures adopted throughout FY2003 resulted in a decrease in operating expenses of \$1.1 million or a 7% decline, when compared to FY2002.

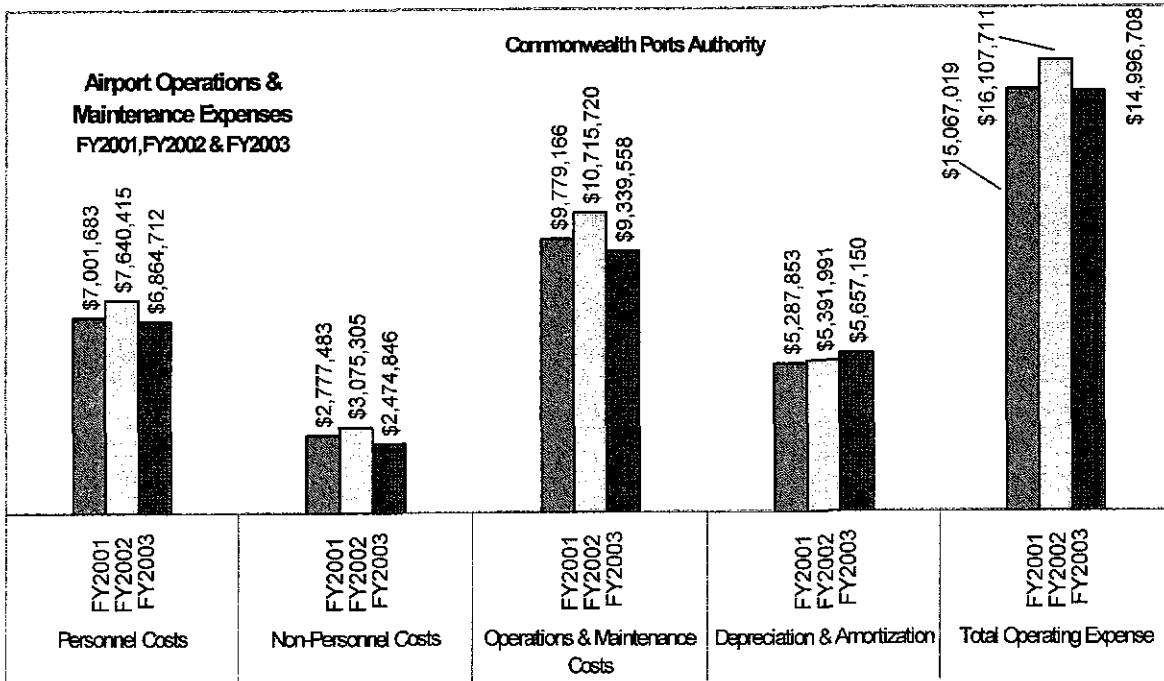
Personnel costs decreased by three quarters of a million dollars amounting to a 10% decrease. Saving in personnel expenses was due to strict austerity imposed by the Board such as non-payment of overtime, annual increments, etc.

Non-personnel costs were further reduced by an additional 20%, or \$600,479, by the prioritization and limiting of operational expenditures to essential items and curtailment of travel except those funded by other sources such as Federal grants.

A ban on the purchases of new vehicles was implemented in FY2004. Capital improvement projects funded by Federal grant sources and not by the operations budget.

**Operating Expenses for Airport Division**

	FY2001	FY2002	FY2003
	Audited	Audited	Audited
Personnel Costs	\$7,001,683	\$7,640,415	\$6,864,712
Non-Personnel Costs	\$2,777,483	\$3,075,305	\$2,474,846
<b>Operating &amp; Maint Costs</b>	<b>\$9,779,166</b>	<b>\$10,715,720</b>	<b>\$9,339,558</b>
Depreciation & Amortization	\$5,287,853	\$5,391,991	\$5,657,150
<b>Total Operating Expense</b>	<b>\$15,067,019</b>	<b>\$16,107,711</b>	<b>\$14,996,708</b>



Change in Expenses between FY2003 & prior year

	FY2002	FY2003	Change	%
Personnel Costs	7,640,415	6,864,712	-775,703	-10%
Non-Personnel Costs	3,075,305	2,474,846	-600,459	-20%
<b>Oper &amp; Maint Costs</b>	<b>10,715,720</b>	<b>9,339,558</b>	<b>-1,376,162</b>	<b>-13%</b>
Depreciat & Amort	5,391,991	5,657,150	265,159	5%
<b>Total Operating Exp</b>	<b>16,107,711</b>	<b>14,996,708</b>	<b>-1,111,003</b>	<b>-7%</b>

Change in Expenses between FY2003 & two years ago

	FY2001	FY2003	Change	%
Personnel Costs	7,001,683	6,864,712	-136,971	-2%
Non-Personnel Costs	2,777,483	2,474,846	-302,637	-11%
<b>Oper &amp; Maint Costs</b>	<b>9,779,166</b>	<b>9,339,558</b>	<b>-439,608</b>	<b>-4%</b>
Depreciat & Amort	5,287,853	5,657,150	369,297	7%
<b>Total Operating Exp</b>	<b>15,067,019</b>	<b>14,996,708</b>	<b>-70,311</b>	<b>0%</b>

### Statement of Revenues, Expenses and Changes In Net Assets

<b>Airport Division</b>	<b>FY2002</b>	<b>FY2003</b>	<b>Difference</b>	<b>%</b>
	<i>Audited</i>	<i>Audited</i>		<i>Change</i>
Revenues from Operations	\$10,158,252	\$10,523,759	\$365,507	4%
Operations & Maint Expenses	(\$10,715,720)	(\$9,339,558)	\$1,376,162	-13%
<b>Operating Income (before depreciation)</b>	<b>(\$557,468)</b>	<b>\$1,184,201</b>	<b>\$1,741,669</b>	<b>-312%</b>
Depreciation & Amortization	(\$5,391,991)	(\$5,657,150)	(\$265,159)	5%
<b>Operating Loss (after depreciation)</b>	<b>(\$5,949,459)</b>	<b>(\$4,472,949)</b>	<b>\$1,476,510</b>	<b>-25%</b>
Non-Oper Revenues or Expenses (net)	(\$707,504)	(\$587,373)	\$120,131	-17%
<b>Loss Before Cap Contrib&amp;Transfers</b>	<b>(\$6,656,963)</b>	<b>(\$5,060,322)</b>	<b>\$1,596,641</b>	<b>-24%</b>
Capital Contributions & Transfers	\$15,794,340	\$10,546,285	(\$5,248,055)	-33%
<b>Changes In Net Assets</b>	<b>\$9,137,377</b>	<b>\$5,485,963</b>	<b>(\$3,651,414)</b>	<b>-40%</b>

### Net Assets Reconciliation

Net Assets - Beginning	\$71,627,018	\$80,764,395	\$9,137,377	13%
Changes In Net Assets	\$9,137,377	\$5,485,963	(\$3,651,414)	-40%
<b>Net Assets - Ending</b>	<b>\$80,764,395</b>	<b>\$86,250,358</b>	<b>\$5,485,963</b>	<b>7%</b>

Operating Income (before depreciation) for the Airport Division exhibited a remarkable 312% turnaround, going from a deficit of \$557,468 in FY2002 to a surplus of \$1.1 million. Two factors caused this improved performance: 1) 4%, or \$365,507, increase, in overall airport revenues; and 2) 13 % decrease of \$1.3 million in operating expenses.

Operating results show an increase in Net Assets of \$9.1 million in FY2002 and \$5.4 million in FY2003 from capital contributions and transfers.

Total Net Assets strengthened by 7%, or \$5.4 million, in FY2003.

## Statement of Net Assets

Airport Division	FY2002 Audited	FY2003 Audited	Difference	%
<b>Assets</b>				
Current Assets	\$10,656,932	\$10,902,957	\$246,025	2%
Restricted Investments	\$3,294,311	\$2,854,224	(\$440,087)	-13%
Non-Current Assets	<u>\$90,653,661</u>	<u>\$97,233,544</u>	<u>\$6,579,883</u>	<u>7%</u>
<b>Total Assets</b>	<b>\$104,604,904</b>	<b>\$110,990,725</b>	<b>\$6,385,821</b>	<b>6%</b>
<b>Liabilities</b>				
Current Liabilities	\$5,395,455	\$6,552,903	\$1,157,448	21%
Long-Term Liabilities	<u>\$18,445,054</u>	<u>\$18,187,464</u>	<u>(\$257,590)</u>	<u>-1%</u>
<b>Total Liabilities</b>	<b>\$23,840,509</b>	<b>\$24,740,367</b>	<b>\$899,858</b>	<b>4%</b>
<b>Net Assets</b>				
Investment in Capital Assets (net of debt)	\$68,685,997	\$75,006,762	\$6,320,765	9%
Restricted Net Assets	\$3,294,311	\$2,854,224	(\$440,087)	-13%
Unrestricted Net Assets	<u>\$8,784,087</u>	<u>\$8,389,372</u>	<u>(\$394,715)</u>	<u>-4%</u>
<b>Total Net Assets</b>	<b>\$80,764,395</b>	<b>\$86,250,358</b>	<b>\$5,485,963</b>	<b>7%</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$104,604,904</b>	<b>\$110,990,725</b>	<b>\$6,385,821</b>	<b>6%</b>

Total Assets for the Airport Division increased by 6%, or \$6.3 million, in FY2003. The growth in assets was mainly due to the 7% increase in property, plant and equipment totaling \$6.1 million.

Total Liabilities increased in FY2003 by 4% caused by an increase in contractor payables in FAA-funded projects received in the latter part of the year.

Investment in Capital Assets, net of related debt, increased by 9%, or \$6.2 million, from \$68.6 million to \$74 million in FY2003, representing the financial strength of the Commonwealth Ports Authority.

**\$20,050,000 1998 Airport Revenue Bonds**

CPA issued a \$20,050,000 tax-exempt revenue bond on March 26, 1998.

Interest is 6.25%, payable semi-annually on March 15 and September 15 of each, commencing September 1998 and ending in the year 2028.

Annual airport bond payments are \$1.4 million.

The long-term portion of the bond balance as of September 30, 2003 is \$18,187,464.

Airport bond payments are current.

This 1998 bond was partly used for an \$8,250,000 refunding of a 1987 Series B tax-exempt bonds. The bond refunding consolidated existing bonds with new bonds to finance 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 that was netted out against the new debt and 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 debt service payments in the future.

**Airport Restricted Investments:**

Restricted investments for airport construction and debt service purposes represent the unused proceeds of the 1998 Airport Revenue Bonds deposited with the Trustee. The balances as of September 30 for FY2003 and FY2002 are:

<u>Airport Restricted Investments</u>	<u>FY2002</u> Audited	<u>FY2003</u> Audited	Difference	%
Bond Reserve Fund	\$1,608,297	\$1,624,210	\$15,913	1%
Construction Fund	\$1,495,097	\$1,037,589	-\$457,508	-31%
Bond Fund	\$158,538	\$137,516	-\$21,022	-13%
Maint & Operation Fund	\$32,379	\$54,909	\$22,530	70%
<b>RESTRICTED INVESTMENTS</b>	<b>\$3,294,311</b>	<b>\$2,854,224</b>	<b>-\$440,087</b>	<b>-13%</b>



## **Airport Bond Compliance**

The Commonwealth Ports Authority was cited by the auditors for failure to collect adequate revenues required by the bond covenants.

The bond-rating agency, Fitch, placed the Commonwealth Ports Authority under Credit Watch status in mid-2003 due to the lack of adequate revenues to comply with the provisions of the bond.

In accordance with bond covenant provisions, the Commonwealth Ports Authority contracted the services of a nationally recognized Independent Financial Consultant, Ricondo & Associates, to review all revenue collection measures and submit an Airport Rate Study report outlining recommendations necessary for CPA to comply with the revenue requirements mandated by the airport's bond indenture.

## **Passenger Facility Charges as New Revenue Source To Meet Bond Covenants**

The Commonwealth Ports Authority initiated preparations in November 2003 to seek FAA approval to implement Passenger Facility Charges (PFC) to provide an adequate and dedicated funding source for debt service and matching funds needed for the FAA-funded capital improvement project.

Revenues from passenger facility charges could raise \$2 million annually and will be a major source of additional revenues needed to comply with the revenue requirements stipulated by the bond covenants.

The meeting with the air carriers to review CPA's PFC application is scheduled for February 24, 2004 with the submission of the PFC application package to the FAA by April 2004. Upon receipt of FAA approval, collection of PFC charges could commence by first quarter of FY2005.

Ricondo & Associates are handling the PFC application documentation and processing through the FAA.

## **Significant FY2003 Events**

Within just two years after the September 11, 2001 tragedy, the Commonwealth Ports Authority had to deal with the impacts caused by the Iraq War in March 2003, the departure of Korean Airlines in April 2003 and the outbreak of SARS from April to July 2003.

Enplaned passengers dropped by 11% during the latter half of FY2003 as a direct result of these significant events.

The Iraq War and the SARS outbreak combined to paralyze air travel from the Asian countries of Japan, China, Hong Kong, and Taiwan. To compensate for reduced passenger loads, the major international air carriers reduced flights, rerouted other flights, and downsized their aircraft to smaller jets.

The Commonwealth Ports Authority, in partnership with the air carriers and the CNMI Department of Public Health, undertook stringent measures to protect the travelers and the public from the SARS outbreak. This concerted effort paid off with the CNMI becoming a SARS-free destination which convinced Asian travelers that it was safe to travel to the CNMI once the SARS outbreak was quelled in July 2003.

## **Air Travel Outlook for FY2004**

FY2004's outlook in terms of air travel is very promising. Several airlines recently added additional international flights that should positively affect FY2004 activity levels.

Asiana Airlines initiated additional flights resulting in 7 to 10 weekly flights during peak periods due to additional traffic to Pusan Korea. Asiana's Pusan Korea flights should bring in an additional 2,124 passengers on 12 extra flights during peak periods. (Asiana Airlines picked up most of the Korean traffic load that previously handled by Korean Airlines.)

Japan Airlines indicated their intent to add flights to Nagoya and Kansai during the peak travel season. Japan Airlines added new charter flights to Haneda from November 2003 to early January 2004 with the capacity of bringing in 230 passengers daily.

Northwest Airlines added new daily direct flights to Nagoya beginning October 2003 using a B-757 with 182-seat capacity. These additional daily flights are projected to bring in 5,400 additional passengers to Saipan each month.

Continental Micronesia added new direct flights to Manila twice a week commencing in early December 2003 with the possibility of extending these flights to April 2004 due to strong demand by travelers who are unable to transit through Guam due to recently imposed immigration restrictions. These new Continental flights bring 310 passengers each week with a projected additional capacity of 1,200 passengers to Saipan each month.

China Southern Airlines was recently granted FAA approval for a permanent established route between the CNMI and Guangzhou, effective January 2004. FAA's approval transforms this charter-service air carrier into a regular-service air carrier between Saipan and Guangzhou resulting in increased passenger traffic and airport activities. This arrangement represents the CNMI's first direct link to China.

China Eastern Airlines received approval to provide 21 charter flights direct from Shanghai with an additional capacity of 1,200 passengers over a four-month period beginning January 10, 2003. China Eastern plans to use an Airbus 340, which can accommodate 281 passengers on each flight. China Eastern could bring 5,900 passengers to Saipan on its 21 charter flights.

In addition, the TSA-Saipan Director stated that the Tinian International Airport may finally be able to take direct flights starting March 2004. At least eight TSA inspectors are expected to arrive to handle the Tinian flights until TSA is able to recruit and hire screeners from the CNMI.

An important aspect that will help air travel to the CNMI is the CNMI Governor's pursuit to obtain approval from the Chinese Ministry of Tourism to grant "Approved Destination Status" to the CNMI.

The Marianas Visitors Bureau and the Commonwealth Ports Authority continue to market the CNMI as a tourist destination.

**Seaport Division  
Management Discussion & Analysis**

**Seaport Activity**

<b>Seaport Activity</b>	<b>FY2001</b>	<b>FY2002</b>	<b>FY2003</b>
for All Seaports Combined	Oct00 to Sep01	Oct01 to Sep02	Oct02 to Sep03
Inbound Cargo (tons)	481,619	448,804	439,436
Outbound Cargo (tons)	187,237	171,994	166,100
Transshipment (tons)	421	2,734	3,487
Petro Cargo (tons)	223,142	171,231	191,372
Cement Cargo (tons)	14,440	12,626	14,054
Unloaded Containers TEUs	19,300	16,278	11,901
Loaded Containers TEUs	19,630	15,995	10,605

Seaport activity in FY2003 resulted in a slight 2% decline in Inbound Cargo tonnage and a 3% decline in Outbound Cargo tonnage. However, unloaded and loaded containers showed significant decline of 27% and 34%, respectively.

FY2003 Transshipment Cargo tonnage increased by 28% over the prior year in addition to a 12% increase in petroleum cargo tonnage.

**First Qtr FY2004 compared to same period last year**

<b>Seaport Activity</b>	<b>FY2002</b>	<b>FY2003</b>	<b>Change</b>	<b>%</b>
for All Seaports Combined				
Inbound Cargo (tons)	448,804	439,436	-9,368	-2%
Outbound Cargo (tons)	171,994	166,100	-5,894	-3%
Transshipment (tons)	2,734	3,487	753	28%
Petro Cargo (tons)	171,231	191,372	20,141	12%
Cement Cargo (tons)	12,626	14,054	1,428	11%
Unloaded Containers TEUs	16,278	11,901	-4,377	-27%
Loaded Containers TEUs	15,995	10,605	-5,390	-34%

**First Qtr FY2004 compared to same period two years ago**

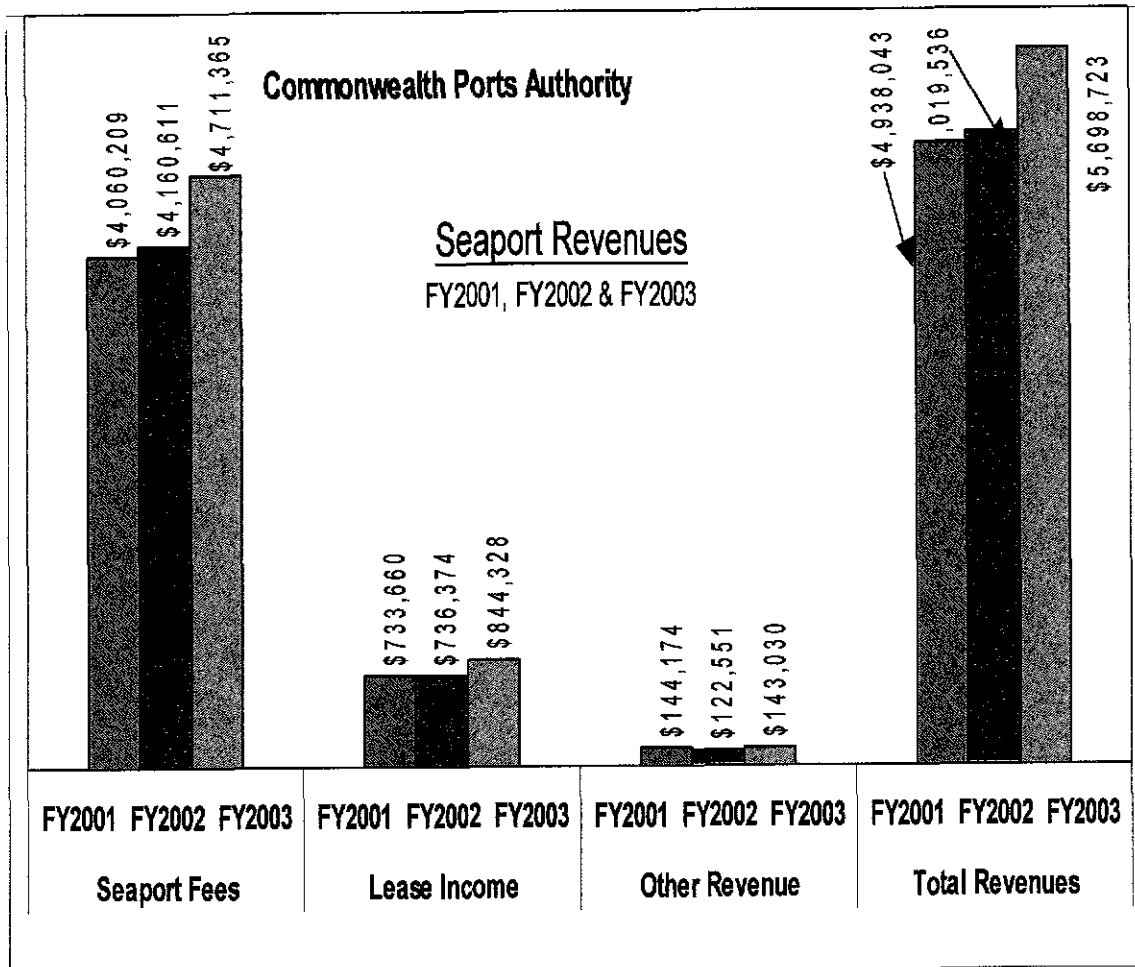
<b>Seaport Activity</b>	<b>FY2001</b>	<b>FY2003</b>	<b>Change</b>	<b>%</b>
for All Seaports Combined				
Inbound Cargo (tons)	481,619	439,436	-42,183	-9%
Outbound Cargo (tons)	187,237	166,100	-21,137	-11%
Transshipment (tons)	421	3,487	3,066	728%
Petro Cargo (tons)	223,142	191,372	-31,770	-14%
Cement Cargo (tons)	14,440	14,054	-386	-3%
Unloaded Containers TEUs	19,300	11,901	-7,399	-38%
Loaded Containers TEUs	19,630	10,605	-9,025	-46%

## Seaport Revenues

Seaport revenues experienced strong overall growth of 14% in FY2003 compared to prior year revenues. The revenue growth was due to a 5% increase in tariff rates in FY2003.

FY2003 revenue figures exceeded the revenue levels for FY2001 and FY2002. Seaport fee revenues and lease revenues increased by at least 13% over both prior years.

Seaport Revenues	FY2001	FY2002	FY2003
	Audited	Audited	Audited
Seaport Fees	\$4,060,209	\$4,160,611	\$4,711,365
Lease Income	\$733,660	\$736,374	\$844,328
Other Revenue	\$144,174	\$122,551	\$143,030
<b>Total Revenues</b>	<b>\$4,938,043</b>	<b>\$5,019,536</b>	<b>\$5,698,723</b>

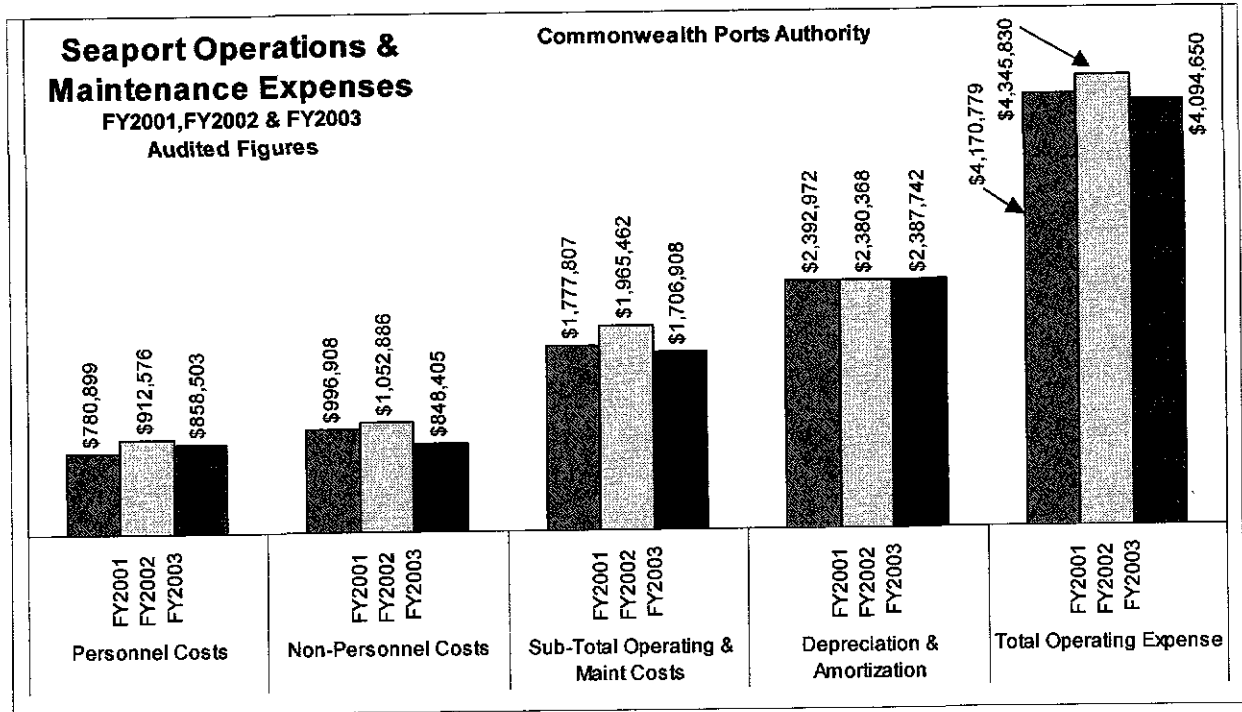


## Seaport Operating Expenses

Total Operating Expenses in FY2003 dropped by 6% or a quarter of a million dollars when compared to the prior year. Personnel costs dropped by 6% and non-personnel operating costs dropped by 19%, or \$204,481, over FY2002.

Implementation of strict cost control measures and non-payment of personnel expenses such as overtime and increments resulted in these overall costs savings.

FY2003 Total Operating Expenses were lower than the expense levels set for FY2002 and FY2001.



<u>Seaport Operating Expenses</u>	<u>FY2002</u>	<u>FY2003</u>	<u>Difference Between</u>	
	Audited	Audited	<u>FY2003 &amp; FY2002</u>	
Personnel Costs	\$912,576	\$858,503	(\$54,073)	-6%
Non-Personnel Costs	\$1,052,886	\$848,405	(\$204,481)	-19%
<b>Operating &amp; Maint Costs</b>	<b>\$1,965,462</b>	<b>\$1,706,908</b>	<b>(\$258,554)</b>	<b>-13%</b>
Depreciation & Amortiz	\$2,380,368	\$2,387,742	\$7,374	0%
<b>Total Operating Expense</b>	<b>\$4,345,830</b>	<b>\$4,094,650</b>	<b>(\$251,180)</b>	<b>-6%</b>

<u>Seaport Operating Expenses</u>	<u>FY2001</u>	<u>FY2003</u>	<u>Difference Between</u>	
	Audited	Audited	<u>FY2003 &amp; FY2001</u>	
Personnel Costs	\$780,899	\$858,503	\$77,604	10%
Non-Personnel Costs	\$996,908	\$848,405	(\$148,503)	-15%
<b>Operating &amp; Maint Costs</b>	<b>\$1,777,807</b>	<b>\$1,706,908</b>	<b>(\$70,899)</b>	<b>-4%</b>
Depreciation & Amortiz	\$2,392,972	\$2,387,742	(\$5,230)	0%
<b>Total Operating Expense</b>	<b>\$4,170,779</b>	<b>\$4,094,650</b>	<b>(\$76,129)</b>	<b>-2%</b>

**Statement of Revenues, Expenses and Changes In Net Assets**

<b>Seaport Division</b>	<b>FY2002</b>	<b>FY2003</b>	<i>Difference</i>	<i>%</i>
	<i>Audited</i>	<i>Audited</i>		<i>Change</i>
Revenues from Operations	\$5,019,536	\$5,698,723	\$679,187	14%
Operations & Maint Expenses	<u>(\$1,965,462)</u>	<u>(\$1,706,908)</u>	<u>\$258,554</u>	<u>-13%</u>
<b>Operating Income</b> (before depreciation)	<b>\$3,054,074</b>	<b>\$3,991,815</b>	<b>\$937,741</b>	<b>31%</b>
Depreciation & Amortization	<u>(\$2,380,368)</u>	<u>(\$2,387,742)</u>	<u>(\$7,374)</u>	<u>0%</u>
<b>Operating Income</b> (after depreciation)	<b>\$673,706</b>	<b>\$1,604,073</b>	<b>\$930,367</b>	<b>138%</b>
Non-Oper Revenues or Expenses (net)	<u>(\$2,263,380)</u>	<u>(\$2,312,584)</u>	<u>(\$49,204)</u>	<u>2%</u>
<b>Loss Before Cap Contrib&amp;Transfers</b>	<b>(\$1,589,674)</b>	<b>(\$708,511)</b>	<b>\$881,163</b>	<b>-55%</b>
Capital Contributions & Transfers	\$0	\$6,894	\$6,894	
<b>Changes In Net Assets</b>	<b>(\$1,589,674)</b>	<b>(\$701,617)</b>	<b>\$888,057</b>	<b>-56%</b>

**Net Assets Reconciliation**

Net Assets - Beginning	\$23,339,947	\$21,750,273	(\$1,589,674)	-7%
Changes In Net Assets	<u>(\$1,589,674)</u>	<u>(\$701,617)</u>	<u>\$888,057</u>	<u>-56%</u>
<b>Net Assets - Ending</b>	<b>\$21,750,273</b>	<b>\$21,048,656</b>	<b>(\$701,617)</b>	<b>-3%</b>

Operating Income, before depreciation, went from \$3,054,074 in FY2002 to \$3,991,815 in FY2003, representing a net increase of 31% or \$937,741. Increased revenues and reduced expenses resulted in this improvement in operating income. Seaport revenues registered a net increase of 14%, or \$679,187, mainly due to a 5% increase in rates. Operating and maintenance expenses were reduced by a net reduction of 13%, or \$258,554, due to controls on personnel costs such as overtime, increments, etc. and limiting expenses to essential items.

Changes in Net Assets exhibited a net reduction of 56%, or \$ 888,057, in FY2003 compared to FY2002 due to the increase in revenues and reduction in operating and maintenance expenses.

## **\$ 33,775,000 1998 Seaport Revenue Bonds**

CPA issued a \$ 33,775,000 Senior Series A 1998 tax-exempt revenue bond on March 26, 1998.

Interest on the bond is payable at 6.6% on March 15 and September 15 of each year. Bond payments commence on September 1998 and end in 2028.

Annual seaport bond payments are \$2.6 million.

The balance of the long-term portion, as of September 30, 2003, is \$29,760,363.

Seaport bond payments are current.

The seaport bond proceeds were partly used for a current refunding of \$22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding consolidated existing debt with new debt issued to finance various seaport projects and to reduce total debt service payments in the future.

The bond reacquisition price exceeded the net carrying amount of the old debt by \$1,345,593 netted out against the new debt and amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction resulted in an economic gain of \$ 1,724,777 and a decrease of \$6,983,345 in debt service payments in the future.

## **\$8,000,000 Seaport Supplemental Reserve Fund**

CPA agreed to deposit \$700,000 annually into a "Seaport Supplemental Reserve Fund" beginning in 2001 and ending in 2005 when the fund balances reaches \$8,000,000.

The balance in the Supplemental Reserve Fund as of September 30, 2003 is \$5,578,761 and contributions are current.

## **Seaport Restricted Investments:**

Restricted investments for seaport construction and debt service purposes represent the unused proceeds of the 1998 Airport Revenue Bonds deposited with the Trustee. The balances as of September 30, 2003 are:

Seaport Bond Reserve Fund	\$ 2,683,739
Seaport Supplemental Reserve Fund	5,578,761
Seaport Reimbursement Fund	5,104
Seaport Bond Fund	267,957
Seaport Maintenance & Operations	<u>3,368</u>
Total Restricted Investments	\$ 8,538,929



## **Notes Payable to Commonwealth Development Authority**

The Commonwealth Ports Authority signed a promissory note with the Commonwealth Development Authority with interest at 2.5% per annum. Payments are due quarterly and the note matures on November 16, 2014. The balance is \$ 8,540,815 as of September 30, 2003. The CDA promissory note is subordinate to the Commonwealth Ports Authority's Seaport bond obligations.

As of September 30, 2003, the Commonwealth Ports Authority complied with the terms of its payment deferral agreement with the Commonwealth Development Authority by updating all the required payments.

COMMONWEALTH PORTS AUTHORITY

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2003

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED UPON THE AUDIT PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Commonwealth Ports Authority:

We have audited the financial statements of the Commonwealth Ports Authority (CPA), as of and for the year ended September 30, 2003, and have issued our report thereon dated November 21, 2003. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether CPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Questioned Costs (pages 9 and 10) as item 2003-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CPA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated November 21, 2003.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche*

November 21, 2003



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL  
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD  
PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors  
Commonwealth Ports Authority:

Compliance

We have audited the compliance of the Commonwealth Ports Authority (CPA) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2003. CPA's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 and 10). Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of CPA's management. Our responsibility is to express an opinion on CPA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CPA'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. Our audit does not provide a legal determination on CPA's compliance with those requirements.

In our opinion, CPA complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2003.

Internal Control Over Compliance

The management of CPA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered CPA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of CPA as of and for the year ended September 30, 2003, and have issued our report thereon dated November 21, 2003. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. This schedule is the responsibility of the management of CPA. Such information has been subjected to the auditing procedures applied in our audit 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.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche*

November 21, 2003

COMMONWEALTH PORTS AUTHORITY

Schedule of Programs Selected for Audit in  
 Accordance with OMB Circular A-133  
 Year Ended September 30, 2003

The following list specifies grants selected for detailed compliance testing in accordance with applicable A-133 requirements.

<u>Original Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Amount of Expenditures</u>
U.S. Department of Transportation	20.106	Federal Aviation Administration	\$ 8,357,442
Federal Emergency Management Office	83.544	Public Assistance Grants	<u>266,767</u>
		Total program expenditures tested	\$ <u>8,624,209</u>
		Total federal program expenditures	\$ <u>9,800,677</u>
		% of total federal program expenditures tested	<u>88%</u>

COMMONWEALTH PORTS AUTHORITY

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2003

Program Title	Federal CFDA Number/ Grantor I.D. No.	Program or Award Amount	Receivable from Grantor at October 1, 2002	Cash Receipts FY03	Expenditures FY03	Net Receivable from Grantor at September 30, 2003
<u>U.S. Department of Transportation</u>						
<u>Federal Aviation Administration</u>						
Direct Grants:						
Saipan International Airport - Apron PCC Paving Phase II	20.106/ 3-69-0002-19/29	\$ 2,399,177	\$ 186,230	\$ 1,442,424	\$ 1,256,194	\$ -
Saipan International Airport - Ultimate Hardstand/E.A.	20.106/ 3-69-0002-24	123,561	39,171	39,171	-	-
Saipan International Airport - Corridor Enclosure	20.106/ 3-69-0002-28	2,729,649	356,041	356,041	-	-
Saipan International Airport - Security Access System Phase II	20.106/ 3-69-0002-30	2,371,271	236,680	647,274	410,594	-
Saipan International Airport - Saipan Rehabilitation Phase I	20.106/ 3-69-0002-31	2,374,254	19,998	322,239	319,684	17,443
Saipan International Airport - Saipan Rehabilitation Phase II	20.106/ 3-69-0002-32	3,956,095	29,999	409,406	400,202	20,795
Saipan International Airport - ARFF Training Facility Phase I	20.106/ 3-69-0002-33	2,946,079	153,606	433,999	435,965	155,572
Saipan International Airport - Airport Perimeter Fencing	20.106/ 3-69-0002-35	1,641,541	-	111,669	129,773	18,104
Saipan International Airport - Noise Mitigation Measures	20.106/ 3-69-0002-37	900,000	-	3,881	3,881	-
Saipan International Airport - Security Enhancement Phase I	20.106/ 3-69-0002-38	5,346,000	-	81,414	101,547	20,133
Saipan International Airport - ARFF Training Facility - Phase II	20.106/ 3-69-0002-39	1,058,074	-	39,746	180,722	140,976
Saipan International Airport - Airport Security Improvement Phase II	20.106/ 3-69-0002-40	294,172	113,785	294,172	180,387	-
Saipan International Airport - Security Enhancement - Conveyor	20.106/ 3-69-0002-41	1,500,000	-	9,312	9,312	-
Saipan International Airport - Airport Runway Safety	20.106/ 3-69-0002-45	3,600,000	-	-	6,856	6,856
Rota International Airport - Rota Airport Master Plan	20.106/ 3-69-0003-12	350,000	40,527	82,461	41,934	-
Rota International Airport - Rota Airport Visual Guidance System	20.106/ 3-69-0003-13	255,000	-	40,811	-	(40,811)
Rota International Airport - Rota Runway Assessment	20.106/ 3-69-0003-14	270,738	-	221,723	232,410	10,687
Rota International Airport - Rota Terminal Repairs (Pongsona)	20.106/ 3-69-0003-15	340,000	-	67,304	70,514	3,210
Tinian International Airport - Tinian Runway Phase I	20.106/ 3-69-001 1-06-10/12	17,255,436	555,857	5,035,726	4,557,528	77,659
Tinian International Airport - Tinian Airport Master Plan	20.106/ 3-69-001 1-11	300,000	-	19,939	19,939	-
		<u>50,011,047</u>	<u>1,731,894</u>	<u>9,658,712</u>	<u>8,357,442</u>	<u>430,624</u>
<u>Transportation Security Administration</u>						
Saipan International Airport - Memorandum of Agreement	20.106/ DTSA20-02-P-50124	239,512	90,650	170,927	117,548	37,271
Saipan International Airport - Reimbursement Agreement	20.106/ DTSA20-03-P-01657	655,026	-	-	47,122	47,122
		<u>894,538</u>	<u>90,650</u>	<u>170,927</u>	<u>164,670</u>	<u>84,393</u>
<u>Federal Emergency Management Agency</u>						
Saipan International Airport - Firefighters Grant Program	EMW-2002-FG02038	250,000	-	62,129	62,129	-
Passed through the Government of the CNMI:						
Saipan International Airport - Public Assistance Grant	83.544	204,638	-	204,638	204,638	-
		<u>454,638</u>	<u>-</u>	<u>266,767</u>	<u>266,767</u>	<u>-</u>
<u>U.S. Department of the Interior</u>						
Passed through the Government of the CNMI:						
Tinian International Airport - Tinian Runway Phase I, II, III, IV, V	15.875	3,691,179	1,395,785	801,501	1,011,798	1,606,082
		<u>3,691,179</u>	<u>1,395,785</u>	<u>801,501</u>	<u>1,011,798</u>	<u>1,606,082</u>
		<u>\$ 55,051,402</u>	<u>\$ 3,218,329</u>	<u>\$ 10,897,907</u>	<u>\$ 9,800,677</u>	<u>\$ 2,121,099</u>
Reconciliation of expenditures to the Statement of Revenues, Expenses and Changes in Net Assets:						
Federal award expenditures per above					\$ 9,800,677	
CNMI matching of Tinian Runway Phase I, II, III, IV, V					752,502	
					<u>\$ 10,553,179</u>	

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



## COMMONWEALTH PORTS AUTHORITY

### Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2003

#### (1) Scope of Review

The Commonwealth Ports Authority (CPA) was established as a public corporation by the Commonwealth of the Northern Mariana Islands (CNMI) by Public Law 2-48, effective November 8, 1981. All significant operations of CPA are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior's Office of the Inspector General has been designated as CPA's cognizant agency for the Single Audit.

##### a. Programs Subject to the Single Audit

All of the programs presented in the Schedule of Expenditures of Federal Awards are subject to the Single Audit. U.S. Federal Covenant funds received as a loan from the Commonwealth Development Authority (CDA) are also subject to the Single Audit (see Note 3).

##### b. Fiscal Period Audited

Single Audit testing procedures were performed for program transactions during the fiscal year ended September 30, 2003.

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

##### a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotments or grant awards received. All expenses and capital outlays are reported as expenditures.

Any federal funds expended in excess of federal funds received are recorded as a receivable from the grantor agency and any federal funds received in excess of federal funds expended are recorded as a payable to the grantor agency.

##### b. Indirect Cost Allocation

CPA does not receive any indirect cost allocation and no indirect costs were recorded against any federal program for fiscal year 2003. The Federal Aviation Administration programs do allow, upon grantor approval, certain administrative expenses to be charged against the grants.

##### c. Matching Requirements

In allocating project expenditures between the federal share and the local share, a percentage is used based upon local matching requirements, unless funds are specifically identified to a certain phase of the project.

COMMONWEALTH PORTS AUTHORITY

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2003

(3) Loan Funds from the Commonwealth Development Authority (CDA)

CPA receives loan funds from CDA that are part of a revolving fund established by CDA under the "Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands" into which repayments of principal and interest from revenue-producing projects funded under Section 702(c) of the Covenant shall be deposited. As of September 30, 2003, CPA's outstanding balance due to this revolving fund was \$8,540,815. No additional amounts were received during the year ended September 30, 2003.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2003

**Section I - Summary of Auditors' Results**

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. No reportable conditions in internal control over financial reporting were identified.
3. One instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. CPA's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Federal Aviation Administration	20.106
Federal Emergency Management Agency	83.544

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. CPA qualified as a low-risk auditee as that term is defined in OMB Circular A-133.

**Section II - Financial Statement Finding**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2003-1	Revenue Bonds Payable	\$ -	10

**Section III - Federal Award Findings and Questioned Cost**

No matters are reportable for the year ended September 30, 2003.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2003

**Section II - Financial Statement Finding**

Revenue Bonds Payable

Finding No. 2003-1

Criteria: Section 6.11 of the Airport Bond Indenture Agreement states that CPA shall impose, levy, enforce 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.

Condition: The required gross revenues for the Airport to be in compliance with Section 6.11 amount to \$11,198,152. Actual gross revenues for the Airport amounted to \$10,590,344, a variance of \$607,808. During the year ended September 30, 2003, CPA hired an independent consultant to make recommendations in accordance with Section 7.01 of the bond indenture.

Cause: The cause of the above condition is that insufficient revenues were generated during the year.

Effect: The effect of the above condition is noncompliance with Section 6.11 of the Airport Bond Indenture Agreement.

Recommendation: We recommend that CPA review all revenue generating sources to ensure amounts collected will be sufficient to meet requirements of Section 6.11.

Prior Year Status: Lack of compliance with Section 6.11 of the Airport Bond Indenture Agreement was reported as a finding in the Single Audits of CPA for fiscal years 2001 and 2002.

Auditee Response and Corrective Action Plan: See attachment to this report.

COMMONWEALTH PORTS AUTHORITY

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2003

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 9 and 10). There are no unresolved questioned costs from prior year audits of CPA.



# COMMONWEALTH PORTS AUTHORITY

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Corrective Action Plans to Findings and Questioned Costs included in the Independent Auditors' Report on Internal Control and Compliance for the Year Ended September 30, 2003

## Financial Statements Findings

### Revenue Bonds Payable

#### Finding No. 2003-1

In accordance with bond covenant provisions, the Commonwealth Ports Authority contracted the services of a nationally recognized Independent Financial Consultant, Ricondo & Associates, to review all revenue collection measures and submit an Airport Rate Study report outlining recommendations necessary for CPA to comply with the revenue requirements mandated by the airport's bond indenture.

The Commonwealth Ports Authority initiated preparations in November 2003 to seek FAA approval to implement Passenger Facility Charges (PFC) to provide an adequate and dedicated funding source for debt service and matching funds needed for the FAA-funded capital improvement project.

Revenues from passenger facility charges could raise \$2 million annually and will be a major source of additional revenues needed to comply with the revenue requirements stipulated by the bond covenants.

The meeting with the air carriers to review CPA's PFC application is scheduled for February 24, 2004 with the submission of the PFC application package to the FAA by April 2004. Upon receipt of FAA approval, collection of PFC charges could commence by first quarter of FY2005.

Ricondo and Associates are handling the PFC application documentation and processing through the FAA.



# COMMONWEALTH PORTS AUTHORITY

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## Summary of Schedule of Prior Audit Findings

Status of audit findings included in the schedule of findings and questioned costs for the year ended September 30, 2002:

### **Financial Statements Findings**

Finding No. 2002-1 - Not corrected. See corrective action plan to Finding No. 2003-1.