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COMMONWEALTH PORTS AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH
OF THE NORTHERN MARIANA ISLANDS)

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

YEAR ENDED SEPTEMBER 30, 2007

# COMMONWEALTH PORTS AUTHORITY
# (A COMPONENT UNIT OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS)

## FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

## YEARS ENDED SEPTEMBER 30, 2007 AND 2006

Deloitte.

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# 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, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and of 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CPA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Commonwealth Ports Authority as of September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 13 to the financial statements, accrued expenses and net proceeds from insurance claims as of and for the year ended September 30, 2006 have been restated.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth Ports Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.



Member of
Deloitte Touche Tohmatsu

Our audits were conducted for the purpose of forming an opinion on the Commonwealth Ports Authority's basic financial statements. The Combining Schedule of Net Assets, Combining Schedule of Revenues, Expenses and Changes in Net Assets and Combining Schedule of Cash Flows as of and for the year ended September 30, 2007 (pages 36 through 38) are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth Ports Authority's management. This supplementary information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2008, on our consideration of internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

August 5, 2008

# COMMONWEALTH PORTS AUTHORITY

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the Commonwealth Ports Authority's (herein referred to as "CPA") audit report presents our discussion and analysis of CPA's financial performance during the fiscal year ended September 30, 2007. Please read it in conjunction with the more detailed information contained within the accompanying financial statements. The nationally recognized accounting firm of Deloitte & Touche LLC issued an unqualified audit opinion.

### INTRODUCTION

CPA is a component unit of the Government of the Commonwealth of the 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 governs CPA appointed by the Governor to serve four-year terms. CPA is a self-supporting organization and generates revenues from port users to fund operating expenses and debt service requirements.

CPA is tasked with the responsibility to operate, maintain, and improve all airports and seaports within the CNMI. Airport and seaport facilities currently exist on the islands of Saipan, Tinian and Rota and have 138 employees on Saipan, 26 employees on Rota and 24 employees on Tinian.

The following discussion and analysis of CPA's activities and financial performance provides an introduction to the financial statements for the fiscal year ended September 30, 2007, with selected comparative information for the fiscal years ended September 30, 2006 and 2005.

The notes to the financial statements are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity during the year, including commitments made for capital expenditures.

### OVERVIEW OF FINANCIAL STATEMENTS

CPA's financial transactions and subsequent statements are prepared in accordance with accounting principles generally accepted in the United States of America and standards mandated by the Governmental Accounting Standards Board, as applicable to governmental entities.

CPA 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 their useful lives. Further information is provided in the footnotes of the accompanying audited financial statements.

The financial statements of this annual report consist of three parts: the MD&A, the basic financial statements, and notes to the financial statements. The basic financial statements consist of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

The Statement of Net Assets presents information on all CPA's assets and liabilities, with the difference between the two reported as net assets. Net assets consist of restricted net assets, unrestricted net assets and invested in capital assets, net of related debt.




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The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how net assets changed during the most recent three fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods.

The Statement of Cash Flows presents information about the cash receipts and cash payments of CPA during the most recent three fiscal years and its ability to generate net cash flows, its ability to meet its obligations as they come due and its needs for external financing.

**FINANCIAL HIGHLIGHTS**

Total assets for the airport and seaport operations combined in FY2007 increased by 13% or $25,577,242 from $201,621,230 in FY2006 to $227,198,472 mainly due to substantial progress made in projects undergoing construction.

Net assets for the airport and seaport operations combined in FY2007 increased by 17% or $22,069,060 from $131,817,464 in FY2006 to $153,886,524. Net assets represent the amount that total assets exceed total liabilities.

Enplanement (air passenger departures) declined by 10% and deplanement (air passenger arrivals) declined by 10% during FY2007 from the prior year due to reduction in passenger arrivals to CNMI.

Seaport inbound cargo decreased by 16% and outbound cargo decreased by 13% in FY2007 from the prior year due to the closure of several garment factories and a decline in orders and inbound commodities from existing factories.

Operating revenues for the airport and seaport operations combined in FY2007 decreased by 24% or $4,804,155 from $19,957,055 in FY2006 to $15,152,900. Airport operating revenues decreased by 10% or $1,145,778 from $10,951,105 in FY2006 to $9,805,327. Seaport operating revenues decreased by 41% or $3,658,377 from $9,005,950 in FY2006 to $5,347,573.

Operating expenses (excluding depreciation and amortization) for the airport and seaport operations combined in FY2007 decreased by 4% or $615,083 from $13,963,912 in FY2006 to $13,348,829, due to reduction in operating cost.

Due to a revenue shortfall of $2.7 million for the airport division and a $1.3 million for the seaport division at September 30, 2007 or a combined shortfall of $4 million, CPA was not in compliance with its 1998 Bond Indenture Agreement (the Agreement). CPA recently hired a bond consultant to conduct an airport rate study to comply with the Bond Indenture agreement.

**Statement of Net Assets**

| Assets | 2007 | 2006 | Variance | % | 2005 |
|---|---|---|---|---|---|
| **Current assets** | $ 18,895,626 | $ 16,366,050 | $ 2,529,576 | 15% | $ 13,221,240 |
| **Investments, restricted for construction and debt service purposes** | 18,729,555 | 22,572,954 | (3,843,399) | -17% | 20,627,716 |
| Noncurrent assets: | | | | | |
| Deferred bond issue cost | 1,528,232 | 1,595,167 | (66,935) | -4% | 1,414,016 |
| Receivable from related parties | 4,700,947 | 4,700,947 | - | 0% | 4,696,105 |
| Capital assets, net | 183,344,112 | 156,386,112 | 26,958,000 | 17% | 146,510,189 |
| **Total noncurrent assets** | 189,573,291 | 162,682,226 | 26,891,065 | 17% | 152,620,310 |
| | $ 227,198,472 | $ 201,621,230 | $ 25,577,242 | 13% | $ 186,469,266 |

## Statement of Net Assets, Continued

| Liabilities and Net Assets | 2007 | 2006 | Variance | % | 2005 |
|---|---|---|---|---|---|
| Current liabilities: | | | | | |
| Revenue bonds payable, current portion | $ 1,265,000 | $ 1,050,000 | $ 215,000 | 20% | $ 985,000 |
| Note payable to related party, current portion | 1,281,659 | 1,244,439 | 37,220 | 3% | 1,219,120 |
| Contractors payable | 9,029,167 | 4,217,463 | 4,811,704 | 114% | 2,463,136 |
| Trade and other payables | 224,700 | 138,812 | 85,888 | 62% | 1,355,908 |
| Due to related parties | 2,524,210 | 2,229,182 | 295,028 | 13% | 1,109,489 |
| Accrued expenses | 2,362,501 | 2,242,706 | 119,795 | 5% | 852,612 |
| Deferred income | 5,625 | 10,333 | (4,708) | -46% | 11,925 |
| Compensated absences, current portion | 242,557 | 284,386 | (41,829) | -15% | 289,877 |
| **Total current liabilities** | **16,935,419** | **11,417,321** | **5,518,098** | **48%** | **8,287,067** |
| Compensated absences, net of current portion | 505,246 | 356,566 | 148,680 | 42% | 372,085 |
| Revenue bonds payable | 51,126,227 | 52,349,570 | (1,223,343) | -2% | 53,359,687 |
| Notes payable to related party | 4,745,056 | 5,432,114 | (687,058) | -13% | 6,102,260 |
| **Total liabilities** | **73,311,948** | **69,555,571** | **3,756,377** | **5%** | **68,121,099** |
| Net assets: | | | | | |
| Invested in capital assets, net of related debt | 126,454,402 | 97,905,156 | 28,549,246 | 29% | 86,858,138 |
| Restricted | 18,729,555 | 22,572,954 | (3,843,399) | -17% | 20,627,716 |
| Unrestricted | 8,702,567 | 11,587,549 | (2,884,982) | -25% | 11,462,313 |
| **Total net assets** | **153,886,524** | **132,065,659** | **21,820,865** | **17%** | **118,348,167** |
| | **$ 227,198,472** | **$ 201,621,230** | **$ 25,577,242** | **13%** | **$ 186,469,266** |

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

| | 2007 | 2006 | Variance | % | 2005 |
|---|---|---|---|---|---|
| Operating revenues, net | $ 15,045,048 | $ 19,426,102 | $ (4,381,054) | -23% | $ 18,973,349 |
| Maintenance and operations expenses | 13,348,829 | 13,963,912 | (615,083) | -4% | 12,021,382 |
| **Income before depreciation** | **1,696,219** | **5,462,190** | **(3,765,971)** | **-69%** | **6,951,967** |
| Depreciation | 10,607,952 | 9,614,293 | 993,659 | 10% | 8,770,716 |
| **Loss after depreciation** | **(8,911,733)** | **(4,152,103)** | **(4,759,630)** | **115%** | **(1,818,749)** |
| Non-operating revenues (expenses), net | (705,956) | (663,420) | (42,536) | 6% | (1,340,119) |
| **Loss before capital contributions** | **(9,617,689)** | **(4,815,523)** | **(4,802,166)** | **100%** | **(3,158,868)** |
| Capital contributions | 31,686,749 | 18,284,820 | 13,401,929 | 73% | 10,791,546 |
| **Change in net assets** | **$ 22,069,060** | **$ 13,469,297** | **$ 8,599,763** | **64%** | **$ 7,932,678** |
| Net assets - beginning | $ 131,817,464 | $ 118,348,167 | $ 13,469,297 | 11% | 110,715,489 |
| Change in net assets | 22,069,060 | 13,469,297 | 8,599,763 | 64% | 7,632,678 |
| **Net assets - ending** | **$ 153,886,524** | **$ 131,817,464** | **$ 22,069,060** | **17%** | **$ 118,348,167** |

In FY2007, airport operating revenues decreased by 10% or $1,145,778 compared to FY2006 levels mainly due to decreases in airline passenger and concession revenues resulting from the reduction of flights to the CNMI. Seaport operating revenues decreased by 41% due to the wharfage settlement payment of $2,688,000 from Mobil Oil received in prior year and the pull out of garment factories.

## Statements of Cash Flows

| | 2007 | 2006 | Variance | % | 2005 |
|---|---|---|---|---|---|
| Cash flows from operating activities | $ (593,490) | $ 5,558,677 | $ (6,152,167) | -111% | $ 7,600,496 |
| Cash flows from capital and related financing activities | (6,119,304) | (2,042,530) | (4,076,774) | 200% | 3,613,575 |
| Cash flows from investing activities | 4,933,030 | (1,003,757) | 5,936,787 | 591% | (8,466,246) |
| **Net change in cash** | **(1,779,764)** | **2,512,390** | **(4,292,154)** | **-171%** | **2,747,825** |
| **Cash and cash equivalents at beginning of year** | **11,458,315** | **8,945,925** | **2,512,390** | **28%** | **6,198,100** |
| **Cash and cash equivalents at end of year** | **$ 9,678,551** | **$ 11,458,315** | **$ (1,779,764)** | **-16%** | **$ 8,945,925** |

**Capital Assets**

At September 30, 2007, CPA had $183,344,112 invested in capital assets, net of depreciation where applicable, including land, runway, terminal and harbor facilities and equipment, fire and rescue equipment, general transportation, other machinery and equipment and numerous projects under construction. This represents a net increase of $26,958,000 or 17% over last year.

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Runway and improvements | $ 69,076,791 | $ 69,076,791 | $ 46,506,820 |
| Other improvements | 16,215,774 | 16,197,486 | 12,820,613 |
| Terminal facilities and equipment | 79,202,607 | 78,675,814 | 73,673,085 |
| Harbor facilities | 62,101,850 | 61,997,300 | 61,997,300 |
| Grounds maintenance and shop equipment | 509,692 | 506,735 | 506,735 |
| Fire and rescue equipment | 11,477,584 | 10,481,756 | 9,951,048 |
| Office furniture and fixtures | 871,010 | 824,171 | 840,044 |
| General transportation | 929,612 | 879,641 | 745,482 |
| Other | 2,392,367 | 871,469 | 605,330 |
| | 242,777,287 | 239,511,163 | 207,646,457 |
| Less accumulated depreciation | (117,828,380) | (107,254,453) | (97,719,142) |
| Total capital assets being depreciated | 124,948,907 | 132,256,710 | 109,927,315 |
| Construction in progress | 57,930,776 | 23,664,973 | 36,118,445 |
| Land | 464,429 | 464,429 | 464,429 |
| Total capital assets, net | $ 183,344,112 | $ 156,386,112 | $ 146,510,189 |

Please refer to note 6 to the financial statements for additional information regarding capital asset activity.

**1998 Airport Revenue Bonds**

On March 26, 1998, CPA issued a 1998 Series A $20,050,000 tax-exempt revenue bond. Interest is 6.25%, payable semi-annually on March 15 and September 15 of each year, commencing September 1998 and ending in the year 2028.

Payments for the Airport bond are current. The current portion of the Airport bond principal is $420,000. The long-term portion of the bond balance as of September 30, 2007 is $16,810,000.

This 1998 bond was partly used to refund an outstanding $8,250,000 1987 Series B tax-exempt bonds. The bond refunding consolidated the existing bonds with new bonds to finance various airport projects and to reduce total future debt service payments from lower interest rates. 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, 2007 are:

| | |
|---|---|
| Bond Reserve Fund | $ 1,525,233 |
| Construction Fund | 979,159 |
| Bond Fund | 262,205 |
| Maintenance and Operations | 404,586 |
| Total | $ 3,171,183 |

**1998 Seaport Revenue Bonds**

On March 26, 1998, CPA issued a 1998 Series A $33,775,000 tax-exempt revenue bond. Interest on the bond is payable at 6.6% on March 15 and September 15 of each year, commencing September 1998 and ending in the year 2028.

Payments for the 1998 Seaport bond are current. The current portion of the 1998 Seaport bond principal is $695,000. The long-term portion of the bond balance as of September 30, 2007 is $28,425,000.

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 reacquisition price exceeded the net carrying amount of the old debt by $1,345,593 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 $1,724,777 and a decrease of $6,983,345 in debt service payments in the future.

**2005 Seaport Revenue Bonds**

On September 21, 2005, CPA issued another Senior Series A tax-exempt revenue bond in the amount of $7,225,000 for the purpose of financing primarily the paving of the container yard area of the seaport. Pursuant to Section 2.04 (A)(9) of the 1998 Senior Series A Seaport Revenue Bond Indenture Agreement, CPA entered into a Second Supplemental Indenture for the above 2005 Senior Series A bonds payable at a semi-annual interest rate of 5.5% on March 15 and September 15 of each year. Payments commenced on March 15, 2008.

Payments for the 2005 Seaport bond are current. The current portion of the 2005 Seaport bond principal is $150,000. The long-term portion of the bond balance as of September 30, 2007 is $7,075,000.

**Seaport Restricted Investments**

| | |
|---|---|
| Bond Reserve Fund | $ 3,489,728 |
| Supplemental Reserve Fund | 8,059,119 |
| Reimbursement Fund | 5,693 |
| Bond Fund | 448,539 |
| Maintenance and Operation | 344,926 |
| Construction Fund | 3,101,624 |
| Interest Fund | 108,743 |
| Total | $ 15,558,372 |

**FY2007 Bond/Debt Ratio Noncompliance**

| | **Airport** | **Seaport** |
|---|---|---|
| Required revenues for bond compliance | $ 12,631,243 | $ 6,425,600 |
| Actual revenues collected | 10,491,657 | 6,197,064 |
| Variance (noncompliance) | $ (2,139,586) | $ (228,536) |

The drop in revenue in FY2007 resulted in the noncompliance with the revenue requirements imposed by the Airport and Seaport Bond Indentures. CPA was cited by our auditors for lack of compliance with the Airport and Seaport Bond Indentures.

In accordance with bond indenture, CPA has hired a bond consultant to conduct an airport rate study to be in compliance with the revenue requirements for the Airport Division. CPA is in the process of hiring a consultant for the Seaport Division.

**Notes Payable to Commonwealth Development Authority**

CPA signed a promissory note with the Commonwealth Development Authority (CDA) with interest at 2.5% per annum. Payments are due quarterly and the note matures on November 16, 2014. The balance is $6,026,715 as of September 30, 2007. The CDA promissory note is subordinated to CPA's Seaport bond obligation. CPA is current with its payments to CDA.

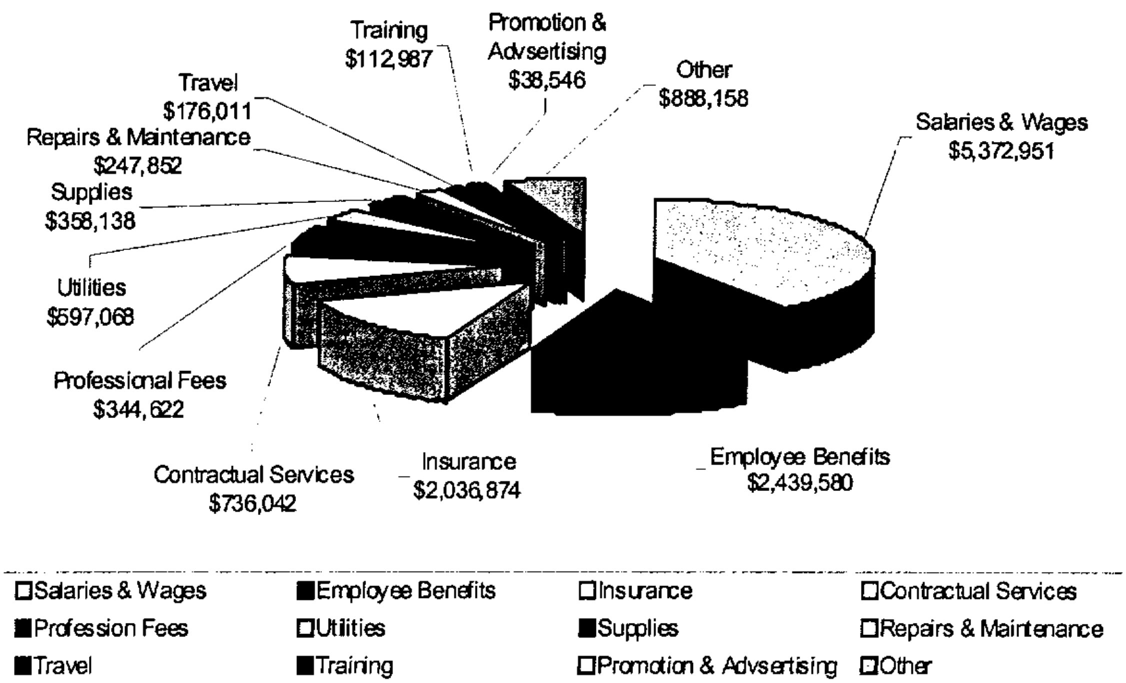
**Operating Revenues (Combined)**

| | FY2007 Audited | FY2006 Audited | Change | % | FY2005 Audited |
|---|---|---|---|---|---|
| Airport revenues | $ 9,805,327 | $ 10,951,105 | $ (1,145,778) | -10% | $ 12,496,056 |
| Seaport revenues | 5,347,573 | 9,005,950 | (3,658,377) | -41% | 6,932,406 |
| **Total operating revenues** | **$ 15,152,900** | **$ 19,957,055** | **$ (4,804,155)** | **-24%** | **$ 19,428,462** |

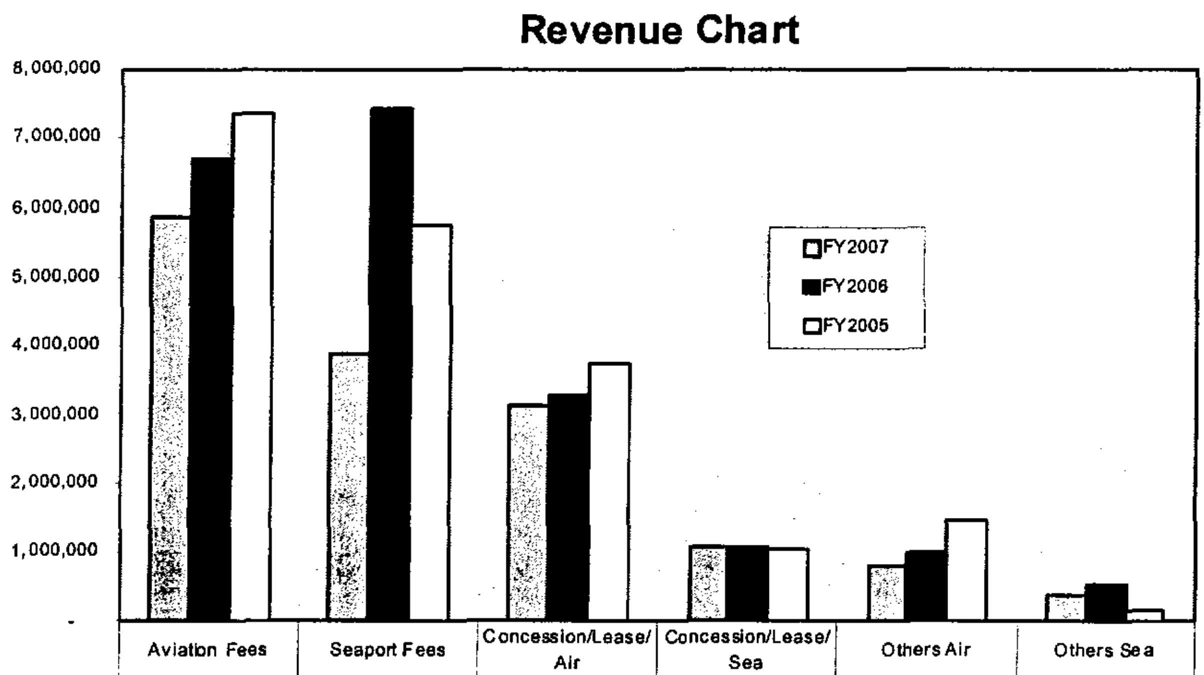
Airport revenues declined by 10% or $1,145,778 overall when compared to FY2006 mainly due to a drastic dropped in air passenger revenues and reduction of flights to the CNMI. Seaport revenues decreased by 41% or $3,658,377 overall when compared to FY2006. The decrease is due to the wharfage settlement payment received from Mobil Oil in prior year and the pull out of the garment industry.

**Operating Expenses (Combined)**

| | FY2007 Audited | FY2006 Audited | Change | % | FY2005 Audited |
|---|---|---|---|---|---|
| Personnel costs | $7,812,531 | $ 7,853,859 | $ 41,328 | 1% | $ 7,223,836 |
| Maintenance and operations expenses | 5,536,298 | 6,110,053 | 573,755 | 9% | 4,797,546 |
| **Total operating expenses** | **$ 13,348,829** | **$ 13,963,912** | **$ 615,083** | **4%** | **$ 12,021,382** |




Operating expenses (excluding depreciation and amortization), for the airport and seaport operations combined in FY 2007 decreased by 4% or $615,083 from $13,963,912 in FY2006 to $13,348,829 due to reduction in operating cost.




| | Aviation Fees | Seaport Fees | Concession/Lease/ Air | Concession/Lease/ Sea | Others Air | Others Sea |
|---|---|---|---|---|---|---|
| FY2007 | 5,866,390 | 3,870,641 | 3,138,518 | 1,075,289 | 800,419 | 401,643 |
| FY2006 | 6,674,299 | 7,404,346 | 3,286,776 | 1,075,593 | 990,030 | 526,011 |
| FY2005 | 7,323,419 | 5,728,165 | 3,740,556 | 1,037,869 | 1,432,081 | 166,372 |

**Airport Enplanement or Departures (Number of Passengers)**

| FY2007 | FY2006 | Change | % | FY2005 |
|---|---|---|---|---|
| 529,002 | 590,507 | 61,505 | -10% | 661,538 |

Enplanement or passenger departures dropped by 10% or 61,505 passengers in FY 2007 as compared to FY2006 due to reduction of flights to the CNMI.

**Airport Deplanement or Arrivals (Number of Passengers) for Each Airport**

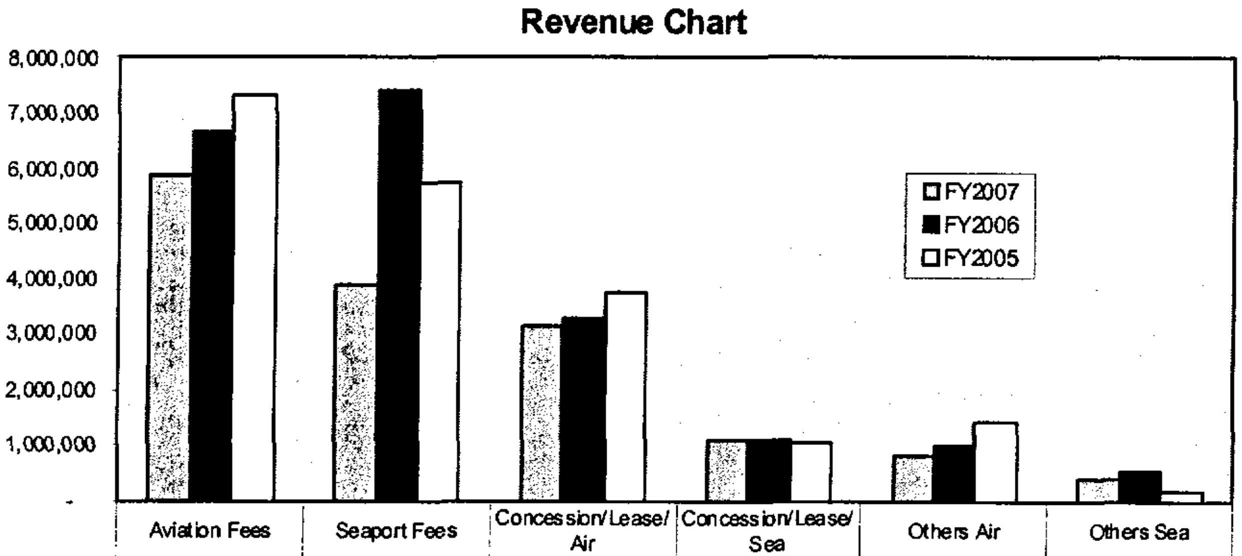
| | FY2007 | FY2006 | Change | % | FY2005 |
|---|---|---|---|---|---|
| Saipan | 470,013 | 511,720 | -41,707 | -8% | 583,363 |
| Rota | 19,409 | 28,963 | -9,554 | -33% | 30,094 |
| Tinian | 30,258 | 37,495 | -7,237 | -19% | 33,271 |
| **Total** | **519,680** | **578,178** | **-58,498** | **-10%** | **646,728** |

Deplanement or passenger arrivals dropped by 10% or 58,498 passengers in FY2007 as compared to 2006 the reduction of flights to the CNMI.

Saipan Airport's deplanement or passenger arrivals dropped by 8% or 41,707 passengers in FY2007 compared to FY2006. Rota Airport's deplanement dropped by 33% or 9,554 passengers in FY 2007 compared to FY2006. Tinian Airport's deplanement dropped by 19% or 7,237 passengers in FY 2007 compared to FY 2006.

### Airport Enplanement or Departures (Number of Passengers) for Each Airport

| | FY2007 | FY2006 | Change | % | FY2005 |
|---|---|---|---|---|---|
| Saipan | 473,249 | 516,366 | -43,117 | -8% | 593,067 |
| Rota | 20,326 | 29,544 | -9,218 | -31% | 30,548 |
| Tinian | 35,427 | 44,597 | -9,170 | -21% | 37,923 |
| **Total** | **529,002** | **590,507** | **-61,505** | **-10%** | **661,538** |



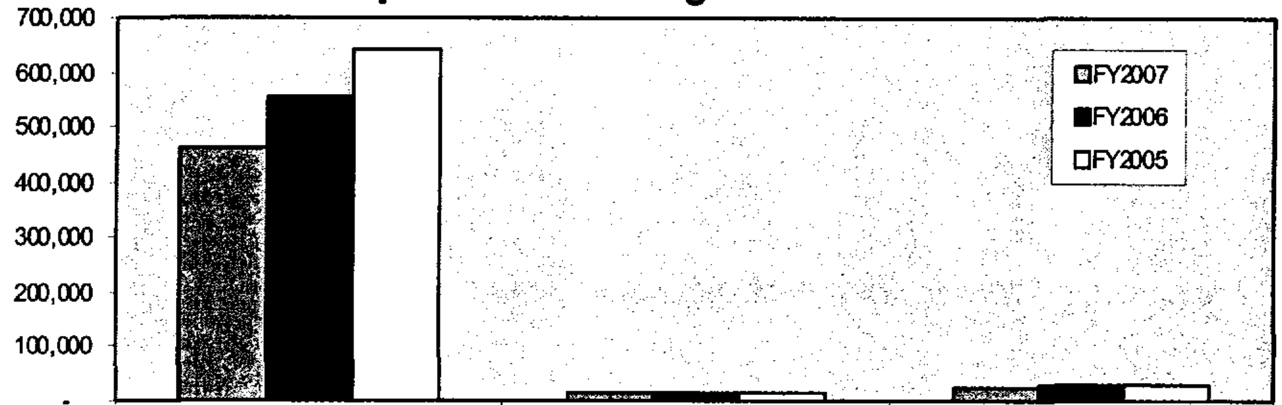

| | Aviation Fees | Seaport Fees | Concession/Lease/ Air | Concession/Lease/ Sea | Others Air | Others Sea |
|---|---|---|---|---|---|---|
| FY2007 | 5,866,390 | 3,870,641 | 3,138,518 | 1,075,289 | 800,419 | 401,643 |
| FY2006 | 6,674,299 | 7,404,346 | 3,286,776 | 1,075,593 | 990,030 | 526,011 |
| FY2005 | 7,323,419 | 5,728,165 | 3,740,556 | 1,037,869 | 1,432,081 | 166,372 |

Saipan Airport's enplanement or passenger departures dropped by 8% or 43,117 passengers in FY2007 compared to FY2006. Rota Airport's enplanement dropped by 31% or 9,218 passengers in FY 2007 compared to FY2006. Tinian Airport's enplanement dropped by 21% or 9,170 passengers in FY 2007 compared to FY 2006.

### Seaport Inbound Cargo Revenue Tons

| | FY2007 | FY2006 | Change | % | FY2005 |
|---|---|---|---|---|---|
| Saipan | 462,233 | 553,267 | -91,034 | -16% | 642,585 |
| Rota | 12,090 | 13,000 | -910 | -7% | 13,137 |
| Tinian | 23,174 | 28,584 | -5,410 | -19% | 29,818 |
| **Total** | **497,497** | **594,851** | **-97,354** | **-16%** | **685,540** |

## Seaport Inbound Cargo Revenue Tons



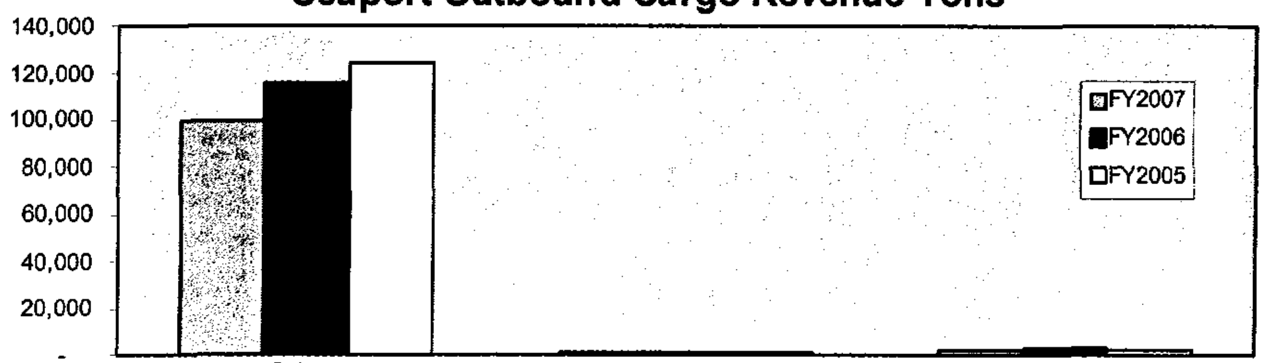

| | Saipan | Rota | Tinian |
|---|---|---|---|
| FY2007 | 462,233 | 12,090 | 23,174 |
| FY2006 | 553,267 | 13,000 | 28,584 |
| FY2005 | 642,585 | 13,137 | 29,818 |

Seaport inbound cargo in terms of revenue tonnage dropped by 16% or 97,354 revenue tons due to the closure of several garment factories and a decline in orders and inbound commodities from existing factories.

**Seaport Outbound Cargo Revenue Tons**

| | FY2007 | FY2006 | Change | % | FY2005 |
|---|---|---|---|---|---|
| Saipan | 99,855 | 115,555 | -15,700 | -14% | 124,818 |
| Rota | 1,103 | 665 | 438 | 66% | 626 |
| Tinian | 2,373 | 3,101 | -728 | -23% | 2,141 |
| **Total** | **103,331** | **119,321** | **-15,990** | **-13%** | **127,585** |

## Seaport Outbound Cargo Revenue Tons




| | Saipan | Rota | Tinian |
|---|---|---|---|
| FY2007 | 99,855 | 1,103 | 2,373 |
| FY2006 | 115,555 | 665 | 3,101 |
| FY2005 | 124,818 | 626 | 2,141 |

Seaport outbound cargo in terms of revenue tonnage dropped by 13% or 15,990 revenue tons due to the closure of several garment factories and a decline in orders from existing factories.

**Contacting CPA' s Financial Management**

This financial report is designed to provide a general overview of CPA's finances and to demonstrate its accountability for the monies received. The Management's Discussion and Analysis for the year ended September 30, 2006 is set forth in the report on the audit of CPA's financial statements which is dated January 11, 2008. That Discussion and Analysis explains the major factors impacting the 2006 financial statements. If you have questions about this report or need additional financial information, contact Ms. Frances Mafnas, CPA Acting Comptroller, P.O. Box 501055, Saipan, MP 96950-1055, or call (670) 664-3524 or email at cpa.plantacct@pticom.com.

## COMMONWEALTH PORTS AUTHORITY

### Statements of Net Assets
### September 30, 2007 and 2006

| ASSETS | 2007 | 2006 (As Restated) |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 9,678,551 | $ 11,458,315 |
| Receivables: | | |
| Grantor agencies | 4,470,495 | 2,805,523 |
| Operations, net | 4,540,961 | 1,940,737 |
| Related parties | 53,181 | 45,616 |
| Officers and employees | 55,069 | 38,250 |
| Prepaid expenses | 97,369 | 77,609 |
| Investments, restricted for construction and debt service purposes | 18,729,555 | 22,572,954 |
| Total current assets | 37,625,181 | 38,939,004 |
| Noncurrent assets: | | |
| Deferred bond issue costs | 1,528,232 | 1,595,167 |
| Receivable from related party | 4,700,947 | 4,700,947 |
| Capital assets, net | 183,344,112 | 156,386,112 |
| Total noncurrent assets | 189,573,291 | 162,682,226 |
| | $ 227,198,472 | $ 201,621,230 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Revenue bonds payable, current portion | $ 1,265,000 | $ 1,050,000 |
| Note payable to related party, current portion | 1,281,659 | 1,244,439 |
| Contractors payable | 9,029,167 | 4,217,463 |
| Trade and other payables | 224,700 | 138,812 |
| Due to related parties | 2,524,210 | 2,229,182 |
| Accrued expenses | 2,362,501 | 2,490,901 |
| Deferred income | 5,625 | 10,333 |
| Compensated absences, current portion | 242,557 | 284,386 |
| Total current liabilities | 16,935,419 | 11,665,516 |
| Compensated absences, net of current portion | 505,246 | 356,566 |
| Revenue bonds payable, net of current portion | 51,126,227 | 52,349,570 |
| Note payable to related party, net of current portion | 4,745,056 | 5,432,114 |
| Total liabilities | 73,311,948 | 69,803,766 |
| Commitment and contingencies | | |
| Net assets: | | |
| Invested in capital assets, net of related debt | 126,454,402 | 97,905,156 |
| Restricted | 18,729,555 | 22,572,954 |
| Unrestricted | 8,702,567 | 11,339,354 |
| Total net assets | 153,886,524 | 131,817,464 |
| | $ 227,198,472 | $ 201,621,230 |

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2007 and 2006

| | 2007 | 2006 (As Restated) |
|---|---|---|
| Operating revenues: | | |
| Aviation fees | $ 5,866,390 | $ 6,674,299 |
| Concession and lease income | 4,213,807 | 4,362,369 |
| Seaport fees | 3,870,641 | 7,404,346 |
| Other | 1,202,062 | 1,516,041 |
| | 15,152,900 | 19,957,055 |
| Less bad debts | (107,852) | (530,953) |
| Operating revenues, net | 15,045,048 | 19,426,102 |
| Operating expenses: | | |
| Depreciation and amortization | 10,607,952 | 9,614,293 |
| Salaries and wages | 5,372,951 | 5,551,649 |
| Employee benefits | 2,439,580 | 2,302,210 |
| Insurance | 2,036,874 | 1,928,226 |
| Contractual services | 736,042 | 1,124,697 |
| Utilities | 597,068 | 501,728 |
| Supplies | 358,138 | 463,900 |
| Professional fees | 344,622 | 665,105 |
| Repairs and maintenance | 247,852 | 265,986 |
| Travel | 176,011 | 166,769 |
| Training | 112,987 | 130,445 |
| Promotion and advertising | 38,546 | 65,598 |
| Other | 888,158 | 797,599 |
| Total operating expenses | 23,956,781 | 23,578,205 |
| Operating loss | (8,911,733) | (4,152,103) |
| Non-operating revenues (expenses): | | |
| Passenger facility charges | 1,940,712 | 2,315,891 |
| Net typhoon loss | - | (120,478) |
| Interest income | 1,089,631 | 941,481 |
| Interest expense | (3,669,364) | (3,733,379) |
| Amortization of bond issue costs | (66,935) | (66,935) |
| Total non-operating expenses, net | (705,956) | (663,420) |
| Loss before capital contributions | (9,617,689) | (4,815,523) |
| Capital contributions | 31,686,749 | 18,284,820 |
| Change in net assets | 22,069,060 | 13,469,297 |
| Net assets at beginning of year | 131,817,464 | 118,348,167 |
| Net assets at end of year | $ 153,886,524 | $ 131,817,464 |

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

## Statements of Cash Flows
## Years Ended September 30, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from customers | $ 12,420,251 | $ 19,333,475 |
| Cash payments to suppliers for goods and services | (5,308,061) | (5,899,929) |
| Cash payments to employees for services | (7,705,680) | (7,874,869) |
| Net cash (used for) provided by operating activities | (593,490) | 5,558,677 |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (32,754,248) | (17,735,890) |
| Proceeds from insurance on capital assets | - | 1,300,000 |
| Capital contributions received | 30,021,777 | 17,648,877 |
| Passenger facility charge receipts | 1,940,712 | 2,315,891 |
| Principal paid on revenue bond maturities | (1,050,000) | (985,000) |
| Payments on note payable to related party | (649,838) | (644,827) |
| Bond issue costs | - | (248,085) |
| Interest paid on revenue bonds and note payable to related party | (3,627,707) | (3,693,496) |
| Net cash used for capital and related financing activities | (6,119,304) | (2,042,530) |
| Cash flows from investing activities: | | |
| Net change in restricted investments | 3,843,399 | (1,945,238) |
| Interest income | 1,089,631 | 941,481 |
| Net cash provided by (used for) investing activities | 4,933,030 | (1,003,757) |
| Net change in cash and cash equivalents | (1,779,764) | 2,512,390 |
| Cash and cash equivalents at beginning of year | 11,458,315 | 8,945,925 |
| Cash and cash equivalents at end of year | $ 9,678,551 | $ 11,458,315 |
| Reconciliation of operating loss to net cash (used for) provided by operating activities: | | |
| Operating loss | $ (8,911,733) | $ (4,152,103) |
| Adjustments to reconcile operating loss to net cash (used for) provided by operating activities: | | |
| Depreciation and amortization | 10,607,952 | 9,614,293 |
| Bad debts | 107,852 | 530,953 |
| (Increase) decrease in assets: | | |
| Receivables - operations | (2,708,076) | (612,991) |
| Receivables - officers and employees | (16,819) | (1,870) |
| Prepaid expenses | (19,760) | 91,051 |
| Receivables - related parties | (7,565) | (8,462) |
| Increase (decrease) in liabilities: | | |
| Accounts payable - trade and other | 85,888 | (1,217,096) |
| Accounts payable - related parties | 295,028 | 1,119,693 |
| Accrued expenses | (128,400) | 217,811 |
| Deferred income | (4,708) | (1,592) |
| Compensated absences | 106,851 | (21,010) |
| Net cash (used for) provided by operating activities | $ (593,490) | $ 5,558,677 |

See accompanying notes to financial statements.

## (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 in 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.

### Concentrations of Credit Risk

Financial instruments which potentially subject CPA to concentrations of credit risk consist principally of cash demand deposits and investments.

At September 30, 2007 and 2006, CPA has cash deposits and investments in bank accounts that exceed federal depository insurance limits. CPA has not experienced any losses on such accounts.

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

### 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 on hand, demand deposits, savings and unrestricted short-term investments in U.S. Treasury obligations with maturity dates within three months of the date acquired. Short-term investment accounts established and set aside for construction and debt service purposes are separately classified as investments in the accompanying financial statements.

### Capitalization of Interest

CPA capitalizes interest in order to recognize all costs associated with the non-contributed airport and seaport construction projects based on CPA's weighted average borrowing rate. During the years ended September 30, 2007 and 2006, management of CPA determined that the amount of interest eligible for capitalization was not material. No interest is capitalized for projects financed with grant proceeds or Passenger Facility Charges.

### 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.

### 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.

### Capital Assets

Property, plant and equipment and construction-in-progress are recorded at cost. Depreciation is provided by using the straight-line method over the estimated useful lives of the assets. CPA's current policy is to capitalize items with costs in excess of $1,000.

### Bond Discounts and Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the term of the related bond using the straight-line method. Bonds payable are reported net of bond discounts. Bond issuance costs are reported as deferred charges.

### Passenger Facility Charges

Passenger Facility Charges (PFCs) generate revenue to be expended by CPA for eligible projects and the payment of debt service on the General Revenue Bonds as determined by applicable federal legislation. PFC revenues are recorded as nonoperating income in the statements of revenues, expenses and changes in net assets.

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

### 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.

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 36.77% 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 recorded contributions to the Fund for the years ended September 30, 2007, 2006 and 2005 were $1,976,243, $2,084,913 and $1,849,847, respectively, equal to the required contributions for each year.

### Net Assets

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, requires CPA to establish net asset categories as follows:

- Invested in capital assets net of related debt; capital assets, net of accumulated depreciation, plus deferred bond issuance cost, less outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

  - Nonexpendable - Net assets subject to externally imposed stipulations that CPA maintain them permanently. For the years ended September 30, 2007 and 2006, CPA does not have nonexpendable restricted net assets.

  - Expendable - Net assets whose use by CPA is subject to externally imposed stipulations that can be fulfilled by actions of CPA pursuant to those stipulations or that expire by the passage of time.

- Unrestricted; Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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

### 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, 2007 and 2006 is $747,803 and $640,952, respectively.

### Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of all airports and seaports within the CNMI. Non-operating revenues and expenses result from capital and financing activities, Passenger Facility Charges and certain recurring income and costs.

### New Accounting Standards

During fiscal year 2007, CPA implemented GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2005. The implementation of this pronouncement did not have a material impact on the accompanying 2007 financial statements.

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of CPA.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues.* GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of CPA.

In December 2006, GASB issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this Statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of CPA.

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

### New Accounting Standards, Continued

In May 2007, GASB issued Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27.* GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits. The provisions of this Statement are effective for periods beginning after June 15, 2007. Management does not believe the implementation of this Statement will have a material effect on the financial statements of CPA.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this Statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of CPA.

### 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.

## (3) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

### Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 Deposits that are federally insured or collateralized with securities held by CPA or its agent in CPA's name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in CPA's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in CPA's name and non-collateralized deposits.

(3) Deposits and Investments, Continued

Deposits, Continued

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, CPA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in CPA's name. CPA does not have a deposit policy for custodial credit risk.

As of September 30, 2007 and 2006, total cash and cash equivalents were $9,678,551 and $11,458,315, respectively, and the corresponding bank balances were $9,968,110 and $11,577,170, respectively. Of the bank balance amounts, $8,849,729 and $10,508,967, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $1,118,381 and $1,068,203, respectively, represent short-term investments held and administered by CPA's trustees in accordance with various trust agreements. Based on negotiated trust and custody contracts, all of these deposits were held in CPA's name by CPA's custodial financial institutions at September 30, 2007 and 2006. As of September 30, 2007 and 2006, bank deposits in the amount of $100,000 were FDIC insured. CNMI law does not require component unit funds to be collateralized and thus CPA's funds, in excess of FDIC insurance, are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments

Investments in U.S. Treasury obligations restricted for construction and debt service purposes represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds. These investments are summarized as follows:

| | 2007 | 2006 |
|---|---|---|
| Airport Division | | |
| Bond Reserve Fund | $ 1,525,233 | $ 1,719,387 |
| Construction Fund | 979,159 | 678,614 |
| Bond Fund | 262,205 | 228,787 |
| Maintenance and Operation | 404,586 | 1,355,526 |
| | 3,171,183 | 3,982,314 |
| Seaport Division | | |
| Bond Reserve Fund | 3,489,728 | 3,412,011 |
| Supplemental Reserve Fund | 8,059,119 | 8,205,849 |
| Reimbursement Fund | 5,693 | 5,444 |
| Bond Fund | 448,539 | 553,729 |
| Maintenance and Operation | 344,926 | 171,832 |
| Construction Fund | 3,101,624 | 6,238,588 |
| Cost of Issuance | - | 3,187 |
| Interest Fund | 108,743 | - |
| | 15,558,372 | 18,590,640 |
| | $ 18,729,555 | $ 22,572,954 |

(3) Deposits and Investments, Continued

Investments, Continued

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

| | |
|---|---|
| Category 1 | Investments that are insured or registered, or securities held by CPA or its agent in CPA's name; |
| Category 2 | Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in CPA's name; or |
| Category 3 | Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in CPA's name. |

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with CPA's investment policy.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, CPA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. CPA's investments are held and administered by CPA's trustees in accordance with various trustee agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held by the counterparty, or by its trust department or agent but not in CPA's name by CPA's custodial financial institutions at September 30, 2007 and 2006. Accordingly, these investments are exposed to custodial credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. CPA's investment policy limits investment maturities to one year to manage its exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for CPA. As of September 30, 2007 and 2006, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2007 and 2006, investments at fair value consist of investments in U.S. Government money market placements.

## (4) Receivables From Federal Grantor Agencies

Receivables from federal grantor agencies as of September 30, 2007 and 2006, are as follows:

| | 2007 | 2006 |
|---|---|---|
| U.S. Department of Transportation<br>Federal Aviation Administration | | |
| Saipan International Airport, AIP Project No. 3-69-0002-31/32/50/53 | $ 192,186 | $ 30,662 |
| Saipan International Airport, AIP Project No. 3-69-0002-37 | (50,079) | (53,186) |
| Saipan International Airport, AIP Project No. 3-69-0002-38/41/52/55 | 1,423,088 | - |
| Saipan International Airport, AIP Project No. 3-69-0002-43/56 | 322,246 | 3,099 |
| Saipan International Airport, AIP Project No. 3-69-0002-45/49 | (186,640) | 3,652 |
| Saipan International Airport, AIP Project No. 3-69-0002-48 | - | 42,472 |
| Saipan International Airport, AIP Project No. 3-69-0002-51 | 131,775 | - |
| Saipan International Airport, AIP Project No. 3-69-0002-54 | 17,692 | 1,818 |
| Rota International Airport, AIP Project No. 3-69-0003-19 | - | 228,226 |
| Master Plan Study (Pagan), AIP Project No. 3-69-0004-01 | 7,768 | 1,826 |
| Tinian International Airport, AIP Project No. 3-69-0011-15/17/19 | 673,058 | 5,006 |
| Tinian International Airport, AIP Project No. 3-69-0011-16 | - | 2,125 |
| Tinian International Airport, AIP Project No. 3-69-0011-18 | 148,381 | 2,129 |
| Tinian International Airport, AIP Project No. 3-69-0011-20 | 2,444 | - |
| | 2,681,919 | 267,829 |
| Transportation Security Administration | | |
| Security reimbursement | 205,351 | 73,636 |
| U.S. Department of the Interior | | |
| OMIP | 110,436 | 92,786 |
| Rota Extension Runway | 332,041 | 1,155,612 |
| Tinian Terminal Building Expansion | 392,789 | 541,616 |
| U.S. Department of Homeland Security | | |
| Homeland Security Grant Program | - | 56,536 |
| Waterside Security | - | 268,292 |
| Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 147,274 | 349,216 |
| Law Enforcement Terrorist Prevention Program | 23,263 | - |
| Passed Through from CNMI Government | | |
| Tinian Harbor | 577,422 | - |
| | $ 4,470,495 | $ 2,805,523 |

Amounts due from the above agencies represent reimbursements due under grants for costs incurred for improvements of the CNMI airports and public assistance. 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.

## (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, 2007 and 2006, are as follows:

| | 2007 | 2006 |
|---|---|---|
| Accounts receivable | $ 5,779,683 | $ 3,179,459 |
| Less allowance for doubtful accounts | (1,238,722) | (1,238,722) |
| | $ 4,540,961 | $ 1,940,737 |

## (6) Capital Assets

Capital asset balances consist of the following as of September 30, 2007 and 2006:

| | Estimated Useful Lives | Balance October 1, 2006 | Increases | Decreases | Balance September 30, 2007 |
|---|---|---|---|---|---|
| Assets not being depreciated: | | | | | |
| Construction in progress | | $ 23,664,973 | $ 37,159,576 | $ (2,893,773) | $ 57,930,776 |
| Land | | 464,429 | - | - | 464,429 |
| Total capital assets not being depreciated | | 24,129,402 | 37,159,576 | (2,893,773) | 58,395,205 |
| Capital assets being depreciated: | | | | | |
| Runway and improvements | 20 years | 69,076,791 | - | - | 69,076,791 |
| Other improvements | 3 - 10 years | 16,197,486 | 28,340 | (10,052) | 16,215,774 |
| Terminal facilities | 20 years | 69,083,593 | 498,049 | - | 69,581,642 |
| Terminal equipment | 2 - 10 years | 9,592,221 | 31,569 | (2,825) | 9,620,965 |
| Harbor facilities | 20 years | 61,997,300 | 104,550 | - | 62,101,850 |
| Grounds maintenance and shop equipment | 2 - 5 years | 506,735 | 2,957 | - | 509,692 |
| Fire and rescue equipment | 2 - 8 years | 10,481,756 | 995,828 | - | 11,477,584 |
| Office furniture and fixtures | 2 - 10 years | 824,171 | 46,839 | - | 871,010 |
| General transportation | 3 - 5 years | 879,641 | 83,990 | (34,019) | 929,612 |
| Other | 3 - 5 years | 871,469 | 1,520,898 | - | 2,392,367 |
| | | 239,511,163 | 3,313,020 | (46,896) | 242,777,287 |
| Less accumulated depreciation | | (107,254,453) | (10,607,952) | 34,025 | (117,828,380) |
| Total capital assets being depreciated | | 132,256,710 | (7,294,932) | (12,871) | 124,948,907 |
| Total capital assets, net | | $ 156,386,112 | $ 29,864,644 | $ (2,906,644) | $ 183,344,112 |

| | Estimated Useful Lives | Balance October 1, 2005 | Increases | Decreases | Balance September 30, 2006 |
|---|---|---|---|---|---|
| Assets not being depreciated: | | | | | |
| Construction in progress | | $ 36,118,445 | $ 19,424,962 | $ (31,878,434) | $ 23,664,973 |
| Land | | 464,429 | - | - | 464,429 |
| Total capital assets not being depreciated | | 36,582,874 | 19,424,962 | (31,878,434) | 24,129,402 |
| Capital assets being depreciated: | | | | | |
| Runway and improvements | 20 years | 46,506,820 | 22,581,846 | (11,875) | 69,076,791 |
| Other improvements | 3 - 10 years | 12,820,613 | 3,376,873 | - | 16,197,486 |
| Terminal facilities | 20 years | 64,126,028 | 4,957,565 | - | 69,083,593 |
| Terminal equipment | 2 - 10 years | 9,547,057 | 45,164 | - | 9,592,221 |
| Harbor facilities | 20 years | 61,997,300 | - | - | 61,997,300 |
| Grounds maintenance and shop equipment | 2 - 5 years | 506,735 | - | - | 506,735 |
| Fire and rescue equipment | 2 - 8 years | 9,951,048 | 530,708 | - | 10,481,756 |
| Office furniture and fixtures | 2 - 10 years | 840,044 | 19,483 | (35,356) | 824,171 |
| General transportation | 3 - 5 years | 745,482 | 177,785 | (43,626) | 879,641 |
| Other | 3 - 5 years | 605,330 | 266,139 | - | 871,469 |
| | | 207,646,457 | 31,955,563 | (90,857) | 239,511,163 |
| Less accumulated depreciation | | (97,719,142) | (9,614,293) | 78,982 | (107,254,453) |
| Total capital assets being depreciated | | 109,927,315 | 22,341,270 | (11,875) | 132,256,710 |
| Total capital assets, net | | $ 146,510,189 | $ 41,766,232 | $ (31,890,309) | $ 156,386,112 |

## (6) Capital Assets, 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 Division

On March 26, 1998, CPA issued $20,050,000 of tax-exempt airport revenue bonds which in part were 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, 2007 and 2006, consist of the following:

| | 2007 | 2006 |
|---|---|---|
| Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2008 and 2028 are listed below. | $ 17,230,000 | $ 17,625,000 |
| Current portion | 420,000 | 395,000 |
| Long-term portion | $ 16,810,000 | $ 17,230,000 |

Principal installments payable by CPA to the Bond Trustee through the life of the 1998 Series A, Airport Revenue Bonds, are due on March 15.

## (7) Revenue Bonds Payable, Continued

### Airport Division, Continued

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

| Year ending September 30, | Principal | Interest | Total |
|---|---|---|---|
| 2008 | $ 420,000 | $ 1,063,750 | $ 1,483,750 |
| 2009 | 445,000 | 1,036,719 | 1,481,719 |
| 2010 | 475,000 | 1,007,969 | 1,482,969 |
| 2011 | 500,000 | 977,500 | 1,477,500 |
| 2012 | 535,000 | 945,156 | 1,480,156 |
| 2013 - 2017 | 3,205,000 | 4,165,801 | 7,370,801 |
| 2018 - 2022 | 4,350,000 | 2,993,749 | 7,343,749 |
| 2023 - 2027 | 5,890,000 | 1,405,313 | 7,295,313 |
| 2028 | 1,410,000 | 44,064 | 1,454,064 |
| | $ 17,230,000 | $ 13,640,021 | $ 30,870,021 |

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:

| Redemption Dates | Redemption Prices |
|---|---|
| March 15, 2013 through March 14, 2014 | 102% |
| March 15, 2014 through March 14, 2015 | 101% |
| March 15, 2015 and thereafter | 100% |

### Seaport Division

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. Interest on the bonds is payable semi-annually at 6.6% on March 15 and September 15 of each year.

## (7) Revenue Bonds Payable, Continued

### Seaport Division, Continued

On September 21, 2005, CPA issued $7,225,000 of Senior Series A tax-exempt seaport revenue bonds for the purpose of financing (including reimbursing itself for) the purchase, acquisition, construction, reconstruction, repair, renovation, improvement or expansion of CPA's seaports. Pursuant to Section 2.04(A)(9) of the 1998 Senior Series A Seaport Revenue Bonds Indenture Agreement dated March 1, 1998 and as supplemented by a First Supplemental Indenture dated March 1, 2000, CPA entered into a Second Supplemental Indenture for the issuance of the 2005 Senior Series A bonds. Interest on the bonds is payable semi-annually at 5.5% on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2007 and 2006, consist of the following:

| | 2007 | 2006 |
|---|---|---|
| Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2007 and 2028 are listed below. | $ 29,120,000 | $ 29,775,000 |
| Special Revenue Bonds, tax exempt, 2005 Senior Series A: interest and annual installments payable to the Bond Trustee between 2008 and 2031 are listed below. | 7,225,000 | 7,225,000 |
| Deferred costs of debt refunding on 1998 Senior Series A bonds | (1,069,062) | (1,105,940) |
| Discount on 2005 Senior Series A bonds | (114,711) | (119,490) |
| | 35,161,227 | 35,774,570 |
| Current portion | 845,000 | 655,000 |
| Long-term portion | $ 34,316,227 | $ 35,119,570 |

Principal installments payable by CPA to the Bond Trustee through the life of the 1998 Senior Series A and the 2005 Senior Series A, Special Revenue Bonds, are due on March 15.

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

| Year ending September 30, | Principal | Interest | Total |
|---|---|---|---|
| 2008 | $ 845,000 | $ 2,292,235 | $ 3,137,235 |
| 2009 | 895,000 | 2,236,493 | 3,131,493 |
| 2010 | 950,000 | 2,177,368 | 3,127,368 |
| 2011 | 1,015,000 | 2,114,392 | 3,129,392 |
| 2012 | 1,075,000 | 2,047,402 | 3,122,402 |
| 2013 - 2017 | 6,485,000 | 9,075,248 | 15,560,248 |
| 2018 - 2022 | 8,805,000 | 6,640,589 | 15,445,589 |
| 2023 - 2027 | 11,925,000 | 3,337,153 | 15,262,153 |
| 2028 - 2031 | 4,350,000 | 300,601 | 4,650,601 |
| | $ 36,345,000 | $ 30,221,481 | $ 66,566,481 |

## (7) Revenue Bonds Payable, Continued

### Seaport Division, Continued

Additionally, CPA has resolved to hold $8,000,000 in the Seaport supplemental reserve fund. The supplemental reserve fund was established pursuant to the First Supplemental Indenture dated March 1, 2000 for the purpose of providing funding and maintenance for the 1998 Senior Series A Seaport Bonds. At September 30, 2007 and 2006, total deposits in the Seaport supplemental reserve fund amounted to $8,059,119 and $8,205,849, respectively.

The 1998 Senior Series A and the 2005 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 Series A 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.

In accordance with the Second Supplemental Indenture of the Seaport Bond Indenture Agreement, Section 15.03, terms of redemption of the 2005 Senior Series A Bonds are as follows:

a) Optional redemption - The 2005 Senior Series A Bonds maturing on or after March 15, 2016 are subject to redemption prior to their respective stated maturities, at the option of CPA, from lawfully available funds deposited in the Optional Redemption Fund, as a whole or in part on any date on or after March 15, 2015, at the following respective redemption prices (expressed as percentages of the principal amount of the 2005 Bonds to be redeemed) plus accrued interest thereon to the date fixed for redemption:

| Redemption Dates | Redemption Prices |
|---|---|
| March 15, 2015 through March 14, 2016 | 101.0% |
| March 15, 2016 through March 14, 2017 | 100.5% |
| March 15, 2017 and thereafter | 100.0% |

b) Mandatory redemption - The 2005 Senior Series A Bonds are subject to mandatory redemption upon notice of completion of the 2005 Project (purchase, acquisition, construction/reconstruction, repair, renovation, improvement, certain capital improvements or expansion of CPA's seaports) or after three years from the date of issuance of the 2005 Senior Series A Bonds from moneys transferred from the Construction Fund to the Optional Redemption Fund in accordance with Section 3.03, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.

c) Insurance or condemnation award - At the option of CPA and prior to their stated maturity, the 2005 Senior Series A Bonds are subject to redemption from proceeds of any insurance or condemnation awards received by CPA due to a casualty loss or governmental taking of CPA's seaport facilities, if such proceeds are not used to repair or replace such facilities, under the circumstances and upon the conditions prescribed in Section 6.17 of the bond indenture, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

d) Mandatory sinking account - The 2005 Senior Series A Bonds maturing are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity d), at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.

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, 2007, except for the collection of gross revenues requirement related to the Airport and Seaport bond indentures. Section 6.11 of the Airport and Seaport Bond Indenture Agreements (Indenture) state that CPA shall impose, levy, enforce and collect such fees/dockage, entry and wharfage 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 failed to comply with this requirement for the Airport Division for the year ended September 30, 2006 and for the Airport Division and the Seaport Division for the year ended September 30, 2007.

Section 6.11(B) of the Indentures state that if the financial statements prepared pursuant to Section 6.06(B) of the Indentures 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 and seaports. 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. CPA hired an independent consultant for the Airport Division and is in the process of hiring an independent consultant for the Seaport Division to comply with Section 6.11(B) of the Indentures.

Changes in long-term liabilities for the years ended September 30, 2007 and 2006, are as follows:

| | Balance October 1, 2006 | Additions | Reductions | Balance September 30, 2007 | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable: | | | | | |
| Airport 1998 Senior Series A | $ 17,625,000 | $ - | $ (395,000) | $ 17,230,000 | $ 420,000 |
| Seaport 1998 Senior Series A | 29,775,000 | - | (655,000) | 29,120,000 | 695,000 |
| Seaport 2005 Senior Series A | 7,225,000 | - | - | 7,225,000 | 150,000 |
| Note payable | 6,676,553 | - | (649,838) | 6,026,715 | 1,281,659 |
| Deferred amounts: | | | | | |
| Deferred costs of debt refunding | (1,105,940) | - | 36,878 | (1,069,062) | - |
| Discount on bonds | (119,490) | - | 4,779 | (114,711) | - |
| | 60,076,123 | - | (1,658,181) | 58,417,942 | 2,546,659 |
| Other: | | | | | |
| Compensated absences | 640,952 | 469,934 | (363,083) | 747,803 | 242,557 |
| | $ 60,717,075 | $ 469,934 | $ (2,021,264) | $ 59,165,745 | $ 2,789,216 |

## (7) Revenue Bonds Payable, Continued

| | Balance October 1, 2005 | Additions | Reductions | Balance September 30, 2006 | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable: | | | | | |
| Airport 1998 Senior Series A | $ 17,995,000 | $ - | $ (370,000) | $ 17,625,000 | $ 395,000 |
| Seaport 1998 Senior Series A | 30,390,000 | - | (615,000) | 29,775,000 | 655,000 |
| Seaport 2005 Senior Series A | 7,225,000 | - | - | 7,225,000 | - |
| Note payable | 7,321,380 | - | (644,827) | 6,676,553 | 1,244,439 |
| Deferred amounts: | | | | | |
| Deferred costs of debt refunding | (1,141,043) | - | 35,103 | (1,105,940) | - |
| Discount on bonds | (124,270) | - | 4,780 | (119,490) | - |
| | 61,666,067 | - | (1,589,944) | 60,076,123 | 2,294,439 |
| Other: | | | | | |
| Compensated absences | 661,962 | 490,545 | (511,555) | 640,952 | 284,386 |
| | $ 62,328,029 | $ 490,545 | $ (2,101,499) | $ 60,717,075 | $ 2,578,825 |

## (8) Note Payable to Related Party

CPA's note payable is as follows:

| | 2007 | 2006 |
|---|---|---|
| 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. | $ 6,026,715 | $ 6,676,553 |
| Less amounts due within one year | 1,281,659 | 1,244,439 |
| Long-term debt | $ 4,745,056 | $ 5,432,114 |

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.

As of September 30, 2007, an amendment to the loan agreement has not been signed by both CPA and CDA.

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

## (8) Note Payable to Related Party, Continued

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

| Year ending September 30, | Principal | Interest | Total |
|---|---|---|---|
| 2008 | $ 1,281,659 | $ 462,283 | $ 1,743,942 |
| 2009 | 704,396 | 112,057 | 816,453 |
| 2010 | 722,172 | 94,281 | 816,453 |
| 2011 | 740,396 | 76,057 | 816,453 |
| 2012 | 759,080 | 57,373 | 816,453 |
| 2013 - 2015 | 1,819,012 | 58,314 | 1,877,326 |
| | $ 6,026,715 | $ 860,365 | $ 6,887,080 |

## (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. Except as disclosed in note 13, 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, 2007 and 2006, and the related receivable and payable balances, are as follows:

| | 2007 | | | |
|---|---|---|---|---|
| | Revenues | Expenses | Receivables | Payables |
| Commonwealth Development Authority | $ - | $ 146,306 | $ - | $ - |
| Commonwealth Utilities Corporation | - | 597,068 | 4,700,947 | 39,265 |
| CNMI Government | - | 125,403 | - | 1,352,521 |
| Northern Mariana Islands Retirement Fund | - | 1,976,243 | - | 1,132,424 |
| Other | 9,754 | - | 53,181 | - |
| | $ 9,754 | $ 2,845,020 | $ 4,754,128 | $ 2,524,210 |

## (10) Related Party Transactions, Continued

| | 2006 | | | |
|---|---|---|---|---|
| | Revenues | Expenses | Receivables | Payables |
| Commonwealth Development Authority | $ - | $ 162,802 | $ - | $ - |
| Commonwealth Utilities Corporation | - | 501,728 | 4,700,947 | 31,561 |
| CNMI Government | - | 126,241 | - | 1,227,118 |
| Northern Mariana Islands Retirement Fund | - | 2,084,913 | - | 970,503 |
| Other | 12,465 | - | 45,616 | - |
| | $ 12,465 | $ 2,875,684 | $ 4,746,563 | $ 2,229,182 |

A note payable to CDA amounted to $6,026,715 and $6,676,553 at September 30, 2007 and 2006, respectively. Interest expense on this note for the years ended September 30, 2007 and 2006 amounted to $146,306 and $162,802, 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 of the original total cost of the project, 29.4% 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 $7,224,720.

The total cost of the project included liquidated damages of $125,000 representing CUC's share. In addition, it also includes $44,034 already billed to CUC. 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. Of the total project cost, 29.4% is recorded as a capital asset and 70.6% is recorded as receivable from related party at September 30, 2007 and 2006. The project was completed and transferred to CUC during the fiscal year ended September 30, 2006.

On July 11, 2007, CPA and CUC entered into an MOA superseding and replacing any and all prior agreements for payment of the related receivable from CUC. In accordance with the MOA, CUC shall make payments over a term not to exceed five years, in installments, commencing on the last day of October 2007. At September 30, 2007, the receivable from CUC amounted to $4,700,947. To date, no payments have been received and, accordingly, the related receivable is classified as noncurrent at September 30, 2007.

The Seaport Division recorded accounts receivable amounting to $53,181 and $45,616 at September 30, 2007 and 2006, respectively, from a company in which a Board member has an interest.

During the years ended September 30, 2007 and 2006, CPA recorded a balance of $889,797 and $970,503, respectively, payable to the NMIRF related to the increase in employer contribution rate from 24% to 36.77%. In addition, CPA recorded an additional $242,627 and $-0- during the years ended September 30, 2007 and 2006, respectively, representing 25% penalty on the original outstanding balance.

## (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, 2007 and 2006, amounted to $4,213,807 and $4,362,369, respectively. Minimum future lease income is as follows:

| Year ending September 30, | Minimum Lease Income Due |
|---|---|
| 2008 | $ 2,617,189 |
| 2009 | 2,113,803 |
| 2010 | 1,870,741 |
| 2011 | 1,793,646 |
| 2012 | 1,753,404 |
| 2013 - 2017 | 8,539,744 |
| 2018 - 2022 | 7,038,925 |
| 2023 - 2027 | 4,268,372 |
| 2028 - 2032 | 3,069,998 |
| 2033 - 2037 | 3,660,319 |
| 2038 - 2042 | 4,359,645 |
| 2043 - 2047 | 3,656,277 |
| 2048 - 2052 | 378,863 |
| | $ 45,120,926 |

### Contingencies

CPA incurred a combined loss before capital contributions and transfers from its two divisions of $9,617,689 and $4,815,523 during the years ended September 30, 2007 and 2006, respectively. Management's plans to increase revenues and/or decrease costs are as follows:

a) Continue implementation of cost cutting measures.

b) Explore non-aviation revenue generating options.

c) Explore non-harbor revenue generating options.

d) Implement recommendations from an independent consultant relating to rate structures at the Airport.

e) Terminate the airline incentive program.

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

## (11) Commitment and Contingencies, Continued

### Contingencies, Continued

CPA participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of $621,238 have been set forth in CPA's Single Audit Report for the year ended September 30, 2007. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

On May 19, 2005, CPA received a Unilateral Administrative Order (UAO) issued by the U.S. Environmental Protection Agency (EPA) concerning activities at the maintenance and waste burning facilities at the Saipan International Airport. For the years ended September 30, 2007 and 2006, CPA incurred cleanup expenditures related to the UAO totaling $166,236 and $538,940, respectively. The ultimate cost of the clean up has not been determined; accordingly, no provision has been accrued at September 30, 2007 for additional costs that may be incurred.

## (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 CNMI airports, substantially all of which are located in the CNMI, Japan, United States, China 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.

During the years ended September 30, 2007 and 2006, three customers accounted for 57% and 52% of the total operating revenues of the Airport Division, and one customer accounted for 18% and 43% of the total operating revenues of the Seaport Division during the years ended September 30, 2007 and 2006, respectively.

## (13) Typhoon Damages

During the year ended September 30, 2006, CPA finalized the estimated cost of damages caused by Typhoon Chaba in August 2004. The estimated damages total $7,702,213 with approximately $7,025,107 of repairs and replacements remaining to be completed at September 30, 2006.

Estimated typhoon costs and related insurance and grant recoveries at September 30, 2006, are as follows:

| | |
|---|---|
| Estimated typhoon costs | $ 7,025,107 |
| Less projects to be capitalized | (3,032,118) |
| Anticipated local and federal grant recoveries | (2,272,511) |
| Insurance recoveries | (1,600,000) |
| Net typhoon loss | $ 120,478 |

## (13) Typhoon Damages, Continued

CPA received insurance proceeds of $-0- and $1,300,000 during the years ended September 30, 2007 and 2006, respectively, relating to Typhoon Chaba. During the year ended September 30, 2007, no repairs were made.

During the year ended September 30, 2007, CPA determined that accrued typhoon expenses were understated by $248,195 at September 30, 2006. The effects are as follows:

| | 2006 As Originally Stated | 2006 As Restated |
|---|---|---|
| Accrued expenses | $ 2,242,706 | $ 2,490,901 |
| Net proceeds from insurance claims | $ 127,717 | $ - |
| Net typhoon loss | $ - | $ (120,478) |

Actual costs and related recoveries may be materially different than estimated.

## (14) Subsequent Events

On May 3, 2008, Public Law 16-2 was enacted which provides that all government departments, divisions, offices, municipalities, autonomous agencies and public corporations shall remit employer contribution payments for employees in the Defined Benefit Plan based on a new rate of 11% of the employee's salary during fiscal year 2008.

On May 12, 2008, the Governor of the CNMI issued Executive Order No. 08-03 placing CPA under the administration of the CNMI Executive Branch for a period of one hundred and twenty (120) days. The Executive Order was issued as a result of the inability of CPA's Board of Director's to establish a quorum in various scheduled meetings.

In addition, on May 13, 2008, the Governor declared a State of Disaster Emergency for the Commonwealth of the Northern Mariana Islands (CNMI). Thirty day extensions of the State of Disaster Emergency declaration on CPA were declared in June and July 2008.

As of June 2008, all members of the Board of Directors resigned.

On July 1, 2008, CPA and CUC entered into an Amended and Superseding Memorandum of Agreement (MOA) for the repayment of the Sewerline Project that replaces and supersedes prior agreements for repayment. As stated in the Amended and Superseding MOA, CPA and CUC have agreed to offset utility charges incurred at the Francisco C. Ada International Airport in lieu of monthly payments from CUC. The right of offset, however, will terminate upon written notice from CUC starting the month following CUC's commencement of actual scheduled payments.

# COMMONWEALTH PORTS AUTHORITY

## Combining Schedule of Net Assets
## September 30, 2007

| ASSETS | Airport Division | Seaport Division | Elimination | Total |
|---|---|---|---|---|
| Current assets: | | | | |
| Cash and cash equivalents | $ 5,730,397 | $ 3,948,154 | $ - | $ 9,678,551 |
| Receivables: | | | | |
| Grantor agencies | 3,810,052 | 660,443 | - | 4,470,495 |
| Operations, net | 4,328,936 | 212,025 | - | 4,540,961 |
| Related parties | - | 53,181 | - | 53,181 |
| Due from Seaport Division | 120,658 | - | (120,658) | - |
| Officers and employees | 52,040 | 3,029 | - | 55,069 |
| Prepaid expenses | 96,869 | 500 | - | 97,369 |
| Investments, restricted for construction and debt service purposes | 3,171,183 | 15,558,372 | - | 18,729,555 |
| Total current assets | 17,310,135 | 20,435,704 | (120,658) | 37,625,181 |
| Noncurrent assets: | | | | |
| Deferred bond issue costs | 546,090 | 982,142 | - | 1,528,232 |
| Receivable from related party | 4,700,947 | - | - | 4,700,947 |
| Capital assets, net | 135,362,881 | 47,981,231 | - | 183,344,112 |
| Total noncurrent assets | 140,609,918 | 48,963,373 | - | 189,573,291 |
| | $ 157,920,053 | $ 69,399,077 | $ (120,658) | $ 227,198,472 |
| LIABILITIES AND NET ASSETS | | | | |
| Current liabilities: | | | | |
| Revenue bonds payable, current portion | $ 420,000 | $ 845,000 | $ - | $ 1,265,000 |
| Note payable to related party, current portion | - | 1,281,659 | - | 1,281,659 |
| Contractors payable | 7,560,128 | 1,469,039 | - | 9,029,167 |
| Trade and other payables | 213,205 | 11,495 | - | 224,700 |
| Due to related parties | 2,238,116 | 286,094 | - | 2,524,210 |
| Due to Airport Division | - | 120,658 | (120,658) | - |
| Accrued expenses | 310,294 | 2,052,207 | - | 2,362,501 |
| Deferred income | 5,625 | - | - | 5,625 |
| Compensated absences, current portion | 223,607 | 18,950 | - | 242,557 |
| Total current liabilities | 10,970,975 | 6,085,102 | (120,658) | 16,935,419 |
| Compensated absences, net of current portion | 432,588 | 72,658 | - | 505,246 |
| Revenue bonds payable, net of current portion | 16,810,000 | 34,316,227 | - | 51,126,227 |
| Note payable to related party, net of current portion | - | 4,745,056 | - | 4,745,056 |
| Total liabilities | 28,213,563 | 45,219,043 | (120,658) | 73,311,948 |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | 118,678,971 | 7,775,431 | - | 126,454,402 |
| Restricted | 3,171,183 | 15,558,372 | - | 18,729,555 |
| Unrestricted | 7,856,336 | 846,231 | - | 8,702,567 |
| Total net assets | 129,706,490 | 24,180,034 | - | 153,886,524 |
| | $ 157,920,053 | $ 69,399,077 | $ (120,658) | $ 227,198,472 |

See Accompanying Independent Auditors' Report.

## COMMONWEALTH PORTS AUTHORITY

### Combining Schedule of Revenues, Expenses and Changes in Net Assets
### Year Ended September 30, 2007

| | Airport Division | Seaport Division | Elimination | Total |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Aviation fees | $ 5,866,390 | $ - | $ - | $ 5,866,390 |
| Concession and lease income | 3,138,518 | 1,075,289 | - | 4,213,807 |
| Seaport fees | - | 3,870,641 | - | 3,870,641 |
| Other | 800,419 | 401,643 | - | 1,202,062 |
| | 9,805,327 | 5,347,573 | - | 15,152,900 |
| Less bad debt | (107,852) | - | - | (107,852) |
| Operating revenues, net | 9,697,475 | 5,347,573 | - | 15,045,048 |
| Operating expenses: | | | | |
| Depreciation and amortization | 8,205,275 | 2,402,677 | - | 10,607,952 |
| Salaries and wages | 4,556,352 | 816,599 | - | 5,372,951 |
| Employee benefits | 2,121,918 | 317,662 | - | 2,439,580 |
| Insurance | 908,960 | 1,127,914 | - | 2,036,874 |
| Contractual services | 655,783 | 80,259 | - | 736,042 |
| Utilities | 528,388 | 68,680 | - | 597,068 |
| Supplies | 323,464 | 34,674 | - | 358,138 |
| Professional fees | 290,911 | 53,711 | - | 344,622 |
| Repairs and maintenance | 188,478 | 59,374 | - | 247,852 |
| Travel | 125,916 | 50,095 | - | 176,011 |
| Training | 112,987 | - | - | 112,987 |
| Promotion and advertising | 35,231 | 3,315 | - | 38,546 |
| Other | 819,733 | 68,425 | - | 888,158 |
| Total operating expenses | 18,873,396 | 5,083,385 | - | 23,956,781 |
| Operating (loss) income | (9,175,921) | 264,188 | - | (8,911,733) |
| Non-operating revenues (expenses): | | | | |
| Passenger facility charges | 1,940,712 | - | - | 1,940,712 |
| Interest income | 240,140 | 849,491 | - | 1,089,631 |
| Interest expense | (1,089,467) | (2,579,897) | - | (3,669,364) |
| Amortization of bond issue costs | (24,459) | (42,476) | - | (66,935) |
| Total non-operating revenues (expenses), net | 1,066,926 | (1,772,882) | - | (705,956) |
| Loss before capital contributions | (8,108,995) | (1,508,694) | - | (9,617,689) |
| Capital contributions | 29,238,040 | 2,448,709 | - | 31,686,749 |
| Change in net assets | 21,129,045 | 940,015 | - | 22,069,060 |
| Net assets at beginning of year | 108,577,445 | 23,240,019 | - | 131,817,464 |
| Net assets at end of year | $ 129,706,490 | $ 24,180,034 | $ - | $ 153,886,524 |

See Accompanying Independent Auditors' Report.

## COMMONWEALTH PORTS AUTHORITY

### Combining Schedule of Cash Flows
### Year Ended September 30, 2007

| | Airport Division | Seaport Division | Elimination | Total |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Cash received from customers | $ 7,051,302 | $ 5,368,949 | $ - | $ 12,420,251 |
| Cash payments to suppliers for goods and services | (3,855,424) | (1,452,637) | - | (5,308,061) |
| Cash payments to employees for services | (6,596,111) | (1,109,569) | - | (7,705,680) |
| Net cash (used for) provided by operating activities | (3,400,233) | 2,806,743 | - | (593,490) |
| Cash flows from capital and related financing activities: | | | | |
| Acquisition of capital assets | (27,095,470) | (5,658,778) | - | (32,754,248) |
| Capital contributions received | 27,841,419 | 2,180,358 | - | 30,021,777 |
| Passenger facility charge receipts | 1,940,712 | - | - | 1,940,712 |
| Principal paid on revenue bond maturities | (395,000) | (655,000) | - | (1,050,000) |
| Payments on note payable to related party | - | (649,838) | - | (649,838) |
| Interest paid on revenue bonds and note payable to related party | (1,089,467) | (2,538,240) | - | (3,627,707) |
| Net cash provided by (used for) capital and related financing activities | 1,202,194 | (7,321,498) | - | (6,119,304) |
| Cash flows from investing activities: | | | | |
| Net change in restricted investments | 811,131 | 3,032,268 | - | 3,843,399 |
| Interest income | 240,140 | 849,491 | - | 1,089,631 |
| Net cash provided by investing activities | 1,051,271 | 3,881,759 | - | 4,933,030 |
| Net change in cash and cash equivalents | (1,146,768) | (632,996) | - | (1,779,764) |
| Cash and cash equivalents at beginning of year | 6,877,165 | 4,581,150 | - | 11,458,315 |
| Cash and cash equivalents at end of year | $ 5,730,397 | $ 3,948,154 | $ - | $ 9,678,551 |
| Reconciliation of operating (loss) income to net cash (used for) provided by operating activities: | | | | |
| Operating (loss) income | $ (9,175,921) | $ 264,188 | $ - | $ (8,911,733) |
| Adjustments to reconcile operating (loss) income to net cash (used for) provided by operating activities: | | | | |
| Depreciation and amortization | 8,205,275 | 2,402,677 | - | 10,607,952 |
| Bad debts | 107,852 | - | - | 107,852 |
| (Increase) decrease in assets: | | | | |
| Receivables - operations | (2,736,190) | 28,114 | - | (2,708,076) |
| Due from Seaport Division | 4,519 | - | (4,519) | - |
| Receivables - officers and employees | (17,646) | 827 | - | (16,819) |
| Prepaid expenses | (19,260) | (500) | - | (19,760) |
| Receivables - related parties | - | (7,565) | - | (7,565) |
| Increase (decrease) in liabilities: | | | | |
| Accounts payable - trade and other | 79,508 | 6,380 | - | 85,888 |
| Accounts payable - related parties | 260,297 | 34,731 | - | 295,028 |
| Due to Airport Division | - | (4,519) | 4,519 | - |
| Accrued expenses | (186,118) | 57,718 | - | (128,400) |
| Deferred income | (4,708) | - | - | (4,708) |
| Compensated absences | 82,159 | 24,692 | - | 106,851 |
| Net cash (used for) provided by operating activities | $ (3,400,233) | $ 2,806,743 | $ - | $ (593,490) |

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2007

Deloitte.

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# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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, 2007, and have issued our report thereon dated August 5, 2008. 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.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered CPA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CPA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects CPA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of CPA's financial statements that is more than inconsequential will not be prevented or detected by CPA's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by CPA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Member of
Deloitte Touche Tohmatsu

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 17) as item 2007-1.

We noted certain matters that we reported to management of CPA in a separate letter dated August 5, 2008.

CPA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit CPA's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Directors of CPA, 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 LLC

August 5, 2008

Deloitte.

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# INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 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 each of its major federal programs for the year ended September 30, 2007. CPA's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 17). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of 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.

As described in items 2007-2 through 2007-7 in the accompanying Schedule of Findings and Questioned Costs, CPA did not comply with requirements regarding allowable costs/cost principles, procurement and suspension and debarment, and cash management that are applicable to its Port Security Grant Program, Law Enforcement Terrorist Prevention Program and Airport Improvement Program. Compliance with such requirements is necessary, in our opinion, for CPA to comply with the requirements applicable to those programs.



Member of
Deloitte Touche Tohmatsu

In our opinion, except for the noncompliance described in the preceding paragraph, CPA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of CPA is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CPA's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in CPA's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and one other that we consider to be a material weakness.

A *control deficiency* in CPA's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects CPA's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by CPA's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2007-2 through 2007-7 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected in CPA's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2007-2 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, 2007, and have issued our report thereon dated August 5, 2008. Our audit was performed for the purpose of forming our opinion on CPA's basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CPA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit CPA's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Directors of CPA, 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 LLC

August 5, 2008

# COMMONWEALTH PORTS AUTHORITY

## Schedule of Expenditures of Federal Awards
## Year Ended September 30, 2007

| Program Title | Federal CFDA Number/ Grantor I.D. No. | Program or Award Amount | Receivable from Grantor (Deferred Revenue) at October 1, 2006 | Cash Receipts FY07 | Expenditures FY07 | Receivable from Grantor (Deferred Revenue) at September 30, 2007 |
|---|---|---|---|---|---|---|
| U.S. Department of Transportation | | | | | | |
| Airport Improvement Program | | | | | | |
| Direct Grants: | | | | | | |
| Saipan International Airport - Saipan Rehabilitation Phase I, II, III & IV | 20.106/3-69-0002-31/32/50/53 | $ 16,330,349 | $ 30,662 | $ 3,915,660 | $ 4,077,184 | $ 192,186 |
| Saipan International Airport - Noise Mitigation Measures | 20.106/3-69-0002-37 | 900,000 | (53,186) | - | 3,107 | (50,079) |
| Saipan International Airport - Security Enhancement Phase I | 20.106/3-69-0002-38/41/52/55 | 9,356,103 | - | 6,639,493 | 8,062,581 | 1,423,088 |
| Saipan International Airport - Airport Terminal Roof Repair | 20.106/3-69-0002-42/47 | 4,000,000 | - | 600,000 | 600,000 | - |
| Saipan International Airport - Rehabilitate Apron Taxilane | 20.106/3-69-0002-43/56 | 4,000,000 | 3,099 | 1,695,086 | 2,014,233 | 322,246 |
| Saipan International Airport - Airport Runway Safety | 20.106/3-69-0002-45/49 | 7,600,000 | 3,652 | 2,865,016 | 2,674,724 | (186,640) |
| Saipan International Airport - Terminal Building Passenger Loading Bridge | 20.106/3-69-0002-48/55 | 4,790,413 | 42,472 | 163,966 | 121,494 | - |
| Saipan International Airport - ARFF Vehicle/Typhoon Repairs | 20.106/3-69-0002-51 | 1,965,462 | - | 869,533 | 1,001,308 | 131,775 |
| Saipan International Airport - ARFF Building Expansion | 20.106/3-69-0002-54 | 500,000 | 1,818 | 368,217 | 384,091 | 17,692 |
| Saipan International Airport - Master Plan Study (Pagan) | 20.106/3-69-0004-01 | 300,000 | 1,826 | 14,450 | 20,392 | 7,768 |
| Rota International Airport - Extended Runway | 20.106/3-69-0003-19 | 5,000,000 | 228,226 | 228,226 | - | - |
| Tinian International Airport - Strengthen Parallel Taxiway - Phase I | 20.106/3-69-0011-15/17/19 | 6,107,226 | 5,006 | 3,742,905 | 4,410,957 | 673,058 |
| Tinian International Airport - Passenger Loading Bridge | 20.106/3-69-0011-16 | 1,000,000 | 2,125 | 193,063 | 190,938 | - |
| Tinian International Airport - ARFF Building Relocation Phase I | 20.106/3-69-0011-18 | 1,045,657 | 2,129 | 187,466 | 333,718 | 148,381 |
| Tinian International Airport - Strengthen Parallel Taxiway - Phase III | 20.106/3-69-0011-20 | 1,684,647 | - | - | 2,444 | 2,444 |
| Unidentified difference | | - | - | (32,582) | (32,582) | - |
| | | 64,579,857 | 267,829 | 21,450,499 | 23,864,589 | 2,681,919 |
| U.S. Department of Homeland Security | | | | | | |
| Waterside Security | HSTS04-04-G-GPS308 | 316,875 | 268,292 | 268,292 | - | - |
| Port Security Grant Program | 97.056 | 1,862,718 | - | 1,495,706 | 1,495,706 | - |
| Passed through the Government of the CNMI: | | | | | | |
| Saipan International Airport - Disaster Grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | 204,638 | 349,217 | 457,030 | 255,087 | 147,274 |
| Homeland Security Grant Program | 97.067 | 158,136 | 56,536 | 92,074 | 35,538 | - |
| Law Enforcement Terrorist Prevention Program | 97.074 | - | - | 223,001 | 246,264 | 23,263 |
| | | 2,542,367 | 674,045 | 2,536,103 | 2,032,595 | 170,537 |
| Transportation Security Administration | | | | | | |
| Saipan International Airport - Reimbursement Agreement | DTSA20-03-P-01657 | 374,415 | 73,636 | 90,414 | 222,129 | 205,351 |
| U.S. Department of the Interior | | | | | | |
| OMIP CNMI-CPA-2006-1 1st Year ARFF Training | 15.875 | 347,000 | 44,375 | 171,610 | 115,562 | (11,673) |
| OMIP CNMI-CPA-2005-2 New Incinerator | 15.875 | 250,000 | 48,411 | 48,411 | - | - |
| OMIP CNMI-CPA-2007-1 Specialized Equipment/Training | 15.875 | 525,000 | - | - | 122,109 | 122,109 |
| OMIP CNMI-CPA-2006-4 2nd Year ARFF Training | 15.875 | 198,000 | - | 39,864 | 39,864 | - |
| Passed through the Government of the CNMI: | | | | | | |
| Rota International Airport - Rota Runway Extension | 15.875 | 5,000,000 | 1,155,611 | 4,534,432 | 3,710,862 | 332,041 |
| Tinian Harbor - Harbor Project | 15.875 | - | - | 204,284 | 781,706 | 577,422 |
| Tinian International Airport - Terminal Building Expansion | 15.875 | 3,347,263 | 541,616 | 946,160 | 797,333 | 392,789 |
| | | 9,667,263 | 1,790,013 | 5,944,761 | 5,567,436 | 1,412,688 |
| | | $ 77,163,902 | $ 2,805,523 | $ 30,021,777 | $ 31,686,749 | $ 4,470,495 |

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

# COMMONWEALTH PORTS AUTHORITY

## Schedule of Programs Selected for Audit in Accordance with OMB Circular A-133 Year Ended September 30, 2007

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

| Original Grantor | CFDA # | Description | Amount of Expenditures |
|---|---|---|---|
| U.S. Department of Transportation | 20.106 | Airport Improvement Program | $ 23,864,589 |
| U.S. Department of Homeland Security | 97.056 | Port Security Grant Program | 1,495,706 |
| | 97.074 | Law Enforcement Terrorist Prevention Program | 246,264 |
| | | | 1,741,970 |
| | | Total program expenditures tested | $ 25,606,559 |
| | | Total program expenditures | $ 31,686,749 |
| | | Less local match | 2,785,493 |
| | | Total federal program expenditures | $ 28,901,256 |
| | | % of total federal program expenditures tested | 89% |

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007

## (1) Scope of Audit

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.

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.

## (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 2007. 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.

## (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, 2007, CPA's outstanding balance due to this revolving fund was $6,026,715. No additional amounts were received during the year ended September 30, 2007.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

## A. SUMMARY OF AUDITOR'S RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of CPA.
2. No significant deficiencies in internal control were disclosed by the audit of the financial statements.
3. One instance of noncompliance considered material to the financial statements of CPA was disclosed during the audit.
4. Significant deficiencies in internal control were disclosed by the audit of the major federal award programs, one of which is considered to be a material weakness.
5. The auditors' report on compliance for the major federal award programs for CPA expressed a qualified opinion.
6. There were audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:

| Name of Federal Program or Cluster | CFDA Number |
|---|---|
| Airport Improvement Program | 20.106 |
| Port Security Grant Program | 97.056 |
| Law Enforcement Terrorist Prevention Program | 97.074 |

8. The threshold for distinguishing Types A and B programs was $950,602.
9. CPA was determined not to be a low-risk auditee.

## B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

| Reference Number | Findings | Refer Page # |
|---|---|---|
| 2007-1 | Revenue Bonds Payable | 10 |

## C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

| Reference Number | Findings | Questioned Costs | Refer Page # |
|---|---|---|---|
| 2007-2 - 3 | Allowable Costs/Cost Principles | $ 346,621 | 11 - 13 |
| 2007-4 | Procurement and Suspension and Debarment | $ 79,932 | 14 |
| 2007-5 | Cash Management | $ - | 15 |
| 2007-6 - 7 | Special Tests and Provisions | $ - | 16 - 17 |

## B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Revenue Bonds Payable

Finding No. 2007-1

Criteria: Section 6.11 of the Airport and Seaport 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 of the Indenture Agreement.

Condition: The required gross revenues for Airport and Seaport to be in compliance with Section 6.11 amount to $12,631,243 and $6,425,600, respectively. Actual gross revenues for the Airport amounted to $10,491,657, resulting in a variance of $2,139,586. Actual gross revenues for the Seaport amounted to $6,197,064, resulting in a variance of $228,536.

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

Effect: The effect of the above condition is noncompliance with Section 6.11 of the Airport and Seaport Bond Indenture Agreements. The Indenture specifies certain actions of CPA when this condition occurs. If, after such actions are taken and required gross revenues continue to be insufficient, the deficiency shall constitute an event of default as specified in Section 7.01 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: Noncompliance with Section 6.11 of the Airport Bond Indenture Agreement was reported as a finding in the Single Audit of CPA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frances C. Mafnas, Acting Comptroller

**Corrective Action:** CPA hired an independent financial consultant, Ricondo and Associates, to review all revenue collection measures and to submit an Airport Rate Study report outlining recommendations necessary for CPA to comply with the revenue requirements of Section 6.11.

**Proposed Completion Date:** FY 2008

## C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

### Allowable Costs/Cost Principles

### Finding No. 2007-2

| Program | Reason for Questioned Costs | Questioned Costs |
|---|---|---|
| U.S. Department of Transportation / Airport Improvement Program / CFDA # 20.106 / Federal Award Period Available Until Expended | Criteria: Administrative costs charged to projects and recorded in the general ledger should be properly supported. | |

Condition: CPA recorded administrative costs related to ongoing/completed projects amounting to $512,152. Of $512,152 tested, the following items were noted:

- Certified timesheets and justification for 25% of gross salaries claimed were not properly supported for the following:

| Project | AIP No. | Amount |
|---|---|---|
| Saipan Rehabilitation - Phase I, II, III & IV | 3-69-0002-31/32/50/53 | $ 51,011 |
| Runway Apron/Taxilane | 3-69-0002-43/56 | 20,241 |
| Airport Runway Safety | 3-69-0002-45/49 | 20,610 |
| ARFF Vehicle/Typhoon Repairs | 3-69-0002-51 | 11,093 |
| Security Enhancement Phase I | 3-69-0002-38/41/52/55 | 10,563 |
| Terminal Building Passenger Loading Bridge | 3-69-0002-48 | 10,302 |
| Expand ARFF Building (Design) | 3-69-0002-54 | 9,884 |
| Airport Parallel T'way Strengthening - I, II | 3-69-0011-15/17/19 | 33,929 |
| Passenger Loading Bridge | 3-69-0011-16 | 10,638 |
| Relocate ARFF Building Phase I (Design) | 3-69-0011-18 | 11,543 |
| | | $ 189,814 |

Questioned Costs: $ 189,814

- Authorization to charge AIP grants for board travel totaling $15,797 was not made available.

Questioned Costs: 15,797

- In addition, we noted differences between the administrative expenses reported per the general ledger and the supporting detailed schedules as follows:

| Project | AIP No. | Per General Ledger | Per Supporting Schedule | Variance |
|---|---|---|---|---|
| Saipan Rehabilitation - Phase I, II, III & IV | 3-69-0002-31/32/50/53 | $ 123,323 | $ 134,307 | $ (10,984) |
| Security Enhancement Phase I | 3-69-0002-38/41/52/55 | $ 36,106 | $ 26,559 | $ 9,547 |
| Runway Apron/Taxilane | 3-69-0002-43/56 | $ 66,272 | $ 57,816 | $ 8,456 |
| Airport Runway Safety | 3-69-0002-45/49 | $ 67,172 | $ 67,133 | $ 39 |
| Terminal Bldg. Passenger Loading Bridge | 3-69-0002-48 | $ 28,010 | $ 28,087 | $ (77) |
| ARFF Vehicle/Typhoon Repairs | 3-69-0002-51 | $ 45,824 | $ 49,946 | $ (4,122) |
| Strengthen Parallel Taxiway Phase I, II | 3-69-0011-15/17/19 | $ 64,806 | $ 72,439 | $ (7,633) |

Cause: The cause of the above condition is estimates are being used to determine costs charged to federally funded projects and the lack of grantor approval of such estimates. In addition, timely reconciliation of the related accounts is not being performed.

Effect: The effect of the above condition is the possible misstatement of expenditures reported and claimed to the grantor and questioned costs of $251,112.

Finding No. 2007-2 Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|---|---|---|
| | Recommendation: We recommend that grantor approval be obtained for estimated percentages and hours utilized in CPA's administrative expense calculations. We also recommend reconciliation of accounts be performed in a timely manner. | |
| | Prior Year Status: The lack of grantor approval of cost estimates charged to projects and lack of timely reconciliation was reported as a finding in the Single Audits of CPA for fiscal years 2005 and 2006. | |
| | Auditee Response and Corrective Action Plan: | |
| | **Name of Contact Person:** Frances C. Mafnas, Acting Comptroller | |
| | **Corrective Action:** We agree with the recommendation. Currently, CPA submits all requests with proper supporting documentation (payroll and other certification) for all administrative costs for FAA approval. CPA is currently working on completing the Cost Allocation Plan to be submitted to FAA for approval. | |
| | **Proposed Completion Date:** FY 2009 | |

## Allowable Costs/Cost Principles

### Finding No. 2007-3

| Program | Reason for Questioned Costs | Questioned Costs |
|---|---|---|
| U.S. Department of Transportation / Airport Improvement Program / CFDA # 20.106 / Federal Award #s AIP No. 3-69-0011-15, 3-69-0011-17 and 3-69-0011-19 / Federal Award Period Available Until Expended | Criteria: Expenditures should be incurred subsequent to the execution of the related contraction. | |
| | Condition: Our tests of project expenditures, totaling $5,307,132, noted $191,591, relating to the Strengthen Parallel Taxiway project, incurred prior to the execution of the related contract. The contract was executed on August 31, 2007. Federal expenditures incurred prior to August 31, 2007 amounted to $141,010. | 141,010 |
| | Cause: The cause of the above condition is lack of adherence to program requirements. | |
| | Effect: The effect of the above condition is the possibility of disallowed costs and questioned costs of $141,010. | |
| | Recommendation: We recommend CPA ensure all grant funded contracts be approved and executed prior to expenditures being incurred. | |
| | Auditee Response and Corrective Action Plan: | |
| | **Name of Contact Person:** Frances C. Mafnas, Acting Comptroller | |
| | **Corrective Action:** We agree with the recommendation. FAA approved this project in September 2005. The contract was executed in August 2007 and approved by FAA in December 2007. Due to the expiration of the grant, FAA allowed drawdowns of funds in 2007 since expenditures had already been incurred. For future projects, CPA will ensure that all federal grant requirements are met prior to incurring any costs on any project. | |
| | **Proposed Completion Date:** FY 2008 | |

## Procurement and Suspension and Debarment

### Finding No. 2007-4

| Program | Reason for Questioned Costs | Questioned Costs |
|---|---|---|
| U.S. Department of Homeland Security / Port Security Grant Program / CFDA # 97.056 / Federal Award # HSTS04-04-G-GPS308 / Federal Award Period Available Until 07/31/07<br><br>U.S. Department of Homeland Security / Law Enforcement Terrorist Prevention Program / CFDA # 97.074 / Federal Award # HSTS04-G-GPS561 / Federal Award Period Available Until 07/31/07 | Criteria: Federal regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Grantees and sub-grantees will use their own procurement procedures, which reflect applicable state and local laws regulations provided that the procurements conform to applicable federal law.<br><br>Condition: CPA procured a professional service contract for construction management as a sole source. The sole source justification, dated and approved by management on December 22, 2005, indicated time constraints in meeting the grant deadline. The actual contract, however, was executed in July 2006. Total expenditures incurred on the contract in fiscal year 2007 amounted to $79,932.<br><br>Cause: The cause of the above condition is failure to follow established procurement procedures.<br><br>Effect: The effect of the above condition is the lack of full and open procurement competition in the applicable procurement transaction.<br><br>Recommendation: We recommend that all procurement regulations be strictly adhered to.<br><br>Auditee Response and Corrective Action Plan:<br><br>**Name of Contact Person:** Frances C. Mafnas, Acting Comptroller<br><br>**Corrective Action:** We agree with the recommendation. Due to changes in management (including Board members), there were delays in the execution of the contract.<br><br>**Proposed Completion Date:** FY 2008 | 79,932 |
| | Total Questioned Costs | $ 426,553 |

U.S. Department of Homeland Security
Cash Management - Port Security Grant Program
CFDA #97.056, Federal Award # HSTS04-04-G-GPS308
Federal Award Period Available Until 07/31/07

Finding No. 2007-5

Criteria: In accordance with OMB Circular A-133, Part III, Compliance Requirements - Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. The allowable clearance pattern is thirty days.

Condition: Of forty-eight expenditure items tested, the disbursement for two items (4%) were issued thirty-one and eleven days, respectively, after cash was received from the grantor agency, as follows:

| Check No. | Drawdown Amount | Cash Receipt Date | Check Clearance Date | Days Elapsed After the Allowable 30 Day Clearance Pattern |
|---|---|---|---|---|
| 29141 | $ 235,735 | 10/12/06 | 12/12/06 | 31 |
| 29142 | $ 30,402 | 10/12/06 | 11/22/06 | 11 |

Cause: The cause of the above condition is due to delays in processing payment requests.

Effect: The effect of the above condition is noncompliance with grant requirements relating to cash management and a possible interest liability of $932. However, no questioned costs result from the condition as the estimated interest liability to the grantor agency is less than $10,000.

Recommendation: We recommend that procedures be established to ensure drawdown of federal funds are disbursed within a timely manner.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frances C. Mafnas, Acting Comptroller

**Corrective Action:** We disagree with the audit finding, although we agree with the recommendation. Form SF-270, Advances Payment or Request Reimbursement, is required to be used under the Homeland Security Grant.

**Proposed Completion Date:** FY 2008

Auditor Response: As stated in the grant award, "Payment under this award will be authorized by the advance or reimbursement payment method using SF270, "Request for Advance or Reimbursement". The recipient shall submit the request no more frequently than monthly and advances shall be approved for periods to cover only expenses anticipated over the next 30 days. Advances shall be limited to the minimum amounts necessary to meet immediate disbursement needs."

U.S. Department of Homeland Security
Special Tests and Provisions - Port Security Grant Program
CFDA #97.056, Federal Award # HSTS04-04-G-GPS308
Federal Award Period Available Until 07/31/07

Finding No. 2007-6

Criteria: Section O, Special Award Conditions of the grant award, includes the following compliance requirements applicable to CPA:

a) All lighting must meet Occupational Safety and Health Administration (OSHA) requirements.

b) All screening equipment must meet TSA standards.

Condition: The Occupational Safety and Health Administration requirements documentation was not made available. In addition, the TSA standard certification for screening equipment, was not made available.

Cause: The cause of the above condition is the lack of systematic filing of relevant documentation supporting compliance with the above requirements.

Effect: The effect of the above condition is noncompliance with Section O, Special Award Conditions, the General Terms and Conditions of the grant award.

Recommendation: We recommend CPA ensure compliance with all grant conditions and ensure that relevant supporting documentation is properly maintained.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frances C. Mafnas, Acting Comptroller

**Corrective Action:** We partially agree with the finding, although we agree with the recommendation. Although CPA did not get the clearance from DHS on the NEPA and the Historic Preservation Act, we did obtain the earthmoving and erosion control permit from the local permitting agency.

**Proposed Completion Date:** FY 2008

U.S. Department of Homeland Security
Special Tests and Provisions - Port Security Grant Program
CFDA #97.056, Federal Award # HSTS04-04-G-PS561
Federal Award Period Available Until 07/31/07

Finding No. 2007-7

Criteria: Section O, Special Award Conditions of the grant award, includes the following compliance requirements applicable to CPA:

a) Environmental Consideration- No construction or installation of equipment may commence until the National Environmental Policy Act (NEPA) and Historical Preservation Act review and clearance has been processed by the Department of Homeland Security (DHS). Grantees are encouraged to coordinate with the DHS Environmental Office in complying with NEPA and Historic Preservation Act requirements prior to incurring or obligating costs.

b) All screening equipment must meet DHS standards.

Condition: Clearance documentation from DHS related to NEPA and the Historical Preservation Act was not made available. In addition, the DHS standard certification for screening equipment, was not made available.

Cause: The cause of the above is the lack of systematic filing of relevant documentation.

Effect: The effect of the above is noncompliance with Section O, Special Award Conditions, of the General Terms and Conditions of the grant award.

Recommendation: We recommend CPA ensure compliance with all grant conditions and ensure that relevant supporting documentation is maintained.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frances C. Mafnas, Acting Comptroller

**Corrective Action:** See response to Finding No. 2007-6. We agree with the recommendation. CPA will ensure that grant conditions are met prior to incurring any cost on any project.

**Proposed Completion Date:** FY 2008

Unresolved Prior Year Comments
Year Ended September 30, 2007

## Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2007:

| | |
|---|---|
| Questioned costs as previously reported | $ 194,685 |
| Questioned costs of fiscal year 2007 Single Audit | 426,553 |
| Unresolved questioned costs at September 30, 2007 | $ 621,238 |

## Unresolved Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 9 through 17).

# 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, 2006:

## FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding No. 2006-1 - Corrective action was taken.

Finding No. 2006-2 - Not corrected. See corrective action plan to Finding No. 2007-1.

## FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding No. 2006-3 - Not corrected. See corrective action plan to Finding No. 2007-2.