

**COMMONWEALTH PORTS AUTHORITY**

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

**YEAR ENDED SEPTEMBER 30, 2001**

**COMMONWEALTH PORTS AUTHORITY**

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED SEPTEMBER 30, 2001 AND 2000**

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Commonwealth Ports Authority:

We have audited the accompanying balance sheets of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 2001 and 2000, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of CPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of CPA as of September 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2002, on our consideration of CPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Deloitte & Touche*

January 23, 2002

# COMMONWEALTH PORTS AUTHORITY

## Balance Sheets September 30, 2001 and 2000 (With Combining Divisional Information as of September 30, 2001)

<u>ASSETS</u>	<u>Airport Division</u>	<u>Seaport Division</u>	<u>2001</u>	<u>2000</u>
<b>Current assets:</b>				
Cash and cash equivalents	\$ 3,013,947	\$ 491,035	\$ 3,504,982	\$ 4,844,962
Investments (note 4)	4,142,000	631,348	4,773,348	4,785,446
<b>Receivables:</b>				
Grantor agencies (note 3)	1,234,760	-	1,234,760	790,004
Operations, net (note 5)	1,458,325	1,099,940	2,558,265	2,473,435
Due from Seaport Division	241,881	-	241,881	95,065
Officers and employees	33,321	2,201	35,522	44,679
Prepaid expenses	90,750	-	90,750	-
Deferred bond issue cost, current portion	26,766	36,743	63,509	62,453
<b>Total current assets</b>	<b>10,241,750</b>	<b>2,261,267</b>	<b>12,503,017</b>	<b>13,096,044</b>
<b>Other assets:</b>				
Investments restricted for construction and debt service purposes (note 4)	3,665,773	6,962,900	10,628,673	11,413,312
<b>Non-current assets:</b>				
Deferred bond issue cost	658,078	904,001	1,562,079	1,592,528
Receivable from related parties (note 11)	3,194,823	-	3,194,823	2,658,757
Property, plant and equipment, net (note 6)	76,274,448	54,404,222	130,678,670	126,634,332
<b>Total non-current assets</b>	<b>80,127,349</b>	<b>55,308,223</b>	<b>135,435,572</b>	<b>130,885,617</b>
	<b>\$ 94,034,872</b>	<b>\$ 64,532,390</b>	<b>\$ 158,567,262</b>	<b>\$ 155,394,973</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>				
<b>Current liabilities:</b>				
Revenue bonds payable, current portion (note 7)	\$ 290,000	\$ 480,000	\$ 770,000	\$ 675,000
Notes payable to related party, current portion (note 8)	-	737,251	737,251	577,783
Contractors payable	1,557,772	104,200	1,661,972	1,309,236
Trade and other payable	112,232	14,991	127,223	184,251
Due to related parties	568,687	56,341	625,028	508,235
Due to Airport Division	-	241,881	241,881	95,065
Accrued expenses	1,145,085	179,605	1,324,690	1,170,131
Deferred income	47,443	-	47,443	47,835
<b>Total current liabilities</b>	<b>3,721,219</b>	<b>1,814,269</b>	<b>5,535,488</b>	<b>4,567,536</b>
Revenue bonds payable (note 7)	18,686,635	30,756,269	49,442,904	50,170,748
Notes payable to related party (note 8)	-	8,621,905	8,621,905	9,184,750
<b>Total liabilities</b>	<b>22,407,854</b>	<b>41,192,443</b>	<b>63,600,297</b>	<b>63,923,034</b>
<b>Fund equity:</b>				
Contributed capital, net (note 9)	44,332,261	9,625,141	53,957,402	47,689,368
Retained earnings	27,294,757	13,714,806	41,009,563	43,782,571
<b>Total fund equity</b>	<b>71,627,018</b>	<b>23,339,947</b>	<b>94,966,965</b>	<b>91,471,939</b>
Commitment and contingencies (note 12)				
	<b>\$ 94,034,872</b>	<b>\$ 64,532,390</b>	<b>\$ 158,567,262</b>	<b>\$ 155,394,973</b>

See accompanying notes to financial statements.

**COMMONWEALTH PORTS AUTHORITY**

**Statements of Revenues, Expenses and Changes in Fund Equity**  
**Years Ended September 30, 2001 and 2000**  
**(With Combining Divisional Information for the year ended September 30, 2001)**

	Airport Division	Seaport Division	2001	2000
<b>Operating revenues (note 13):</b>				
Aviation fees	\$ 6,244,040	\$ -	\$ 6,244,040	\$ 5,908,210
Concession and lease income (note 12)	4,103,457	733,660	4,837,117	4,947,991
Seaport fees	-	4,060,209	4,060,209	4,431,652
Other	1,073,039	144,174	1,217,213	1,227,390
Total operating revenues	11,420,536	4,938,043	16,358,579	16,515,243
<b>Operating expenses:</b>				
Depreciation and amortization	5,287,853	2,392,972	7,680,825	7,774,451
Salaries and wages	5,452,345	605,558	6,057,903	5,358,966
Employee benefits	1,549,338	175,341	1,724,679	1,696,174
Insurance	545,287	228,800	774,087	741,327
Professional fees	409,767	174,665	584,432	498,182
Travel	377,722	99,142	476,864	232,198
Supplies	417,444	14,726	432,170	401,945
Bad debts	61,485	316,777	378,262	421,550
Utilities	271,262	40,005	311,267	294,519
Repairs and maintenance	237,944	50,851	288,795	334,223
Contractual services	165,897	13,373	179,270	153,529
Promotion and advertising	107,661	8,975	116,636	106,517
Training	13,748	-	13,748	87,299
Other	169,266	49,594	218,860	338,532
Total operating expenses	15,067,019	4,170,779	19,237,798	18,439,412
Operating (loss) income	(3,646,483)	767,264	(2,879,219)	(1,924,169)
<b>Non-operating revenues (expenses):</b>				
Interest income	537,450	414,778	952,228	1,051,904
Gain on debt restructure (note 8)	-	-	-	1,018,675
Other (expense) income, net (note 12)	(591,389)	-	(591,389)	372,674
Federal grants	-	-	-	138,614
Interest expense	(788,959)	(2,427,900)	(3,216,859)	(3,428,387)
Amortization of bond issue cost	(24,459)	(32,934)	(57,393)	(62,453)
Total non-operating revenues (expenses), net	(867,357)	(2,046,056)	(2,913,413)	(908,973)
Net loss	(4,513,840)	(1,278,792)	(5,792,632)	(2,833,142)
<b>Add depreciation on fixed assets acquired by grants externally restricted for capital acquisition and construction that reduces contributed capital</b>	2,513,410	506,214	3,019,624	3,115,149
(Decrease) increase in retained earnings	(2,000,430)	(772,578)	(2,773,008)	282,007
Retained earnings at beginning of year	29,295,187	14,487,384	43,782,571	43,500,564
Retained earnings at end of year	27,294,757	13,714,806	41,009,563	43,782,571
Contributed capital at beginning of year	37,558,013	10,131,355	47,689,368	49,136,472
Contributed capital additions	9,287,658	-	9,287,658	1,668,045
Less depreciation	(2,513,410)	(506,214)	(3,019,624)	(3,115,149)
Contributed capital at end of year (note 9)	44,332,261	9,625,141	53,957,402	47,689,368
<b>Total fund equity</b>	\$ 71,627,018	\$ 23,339,947	\$ 94,966,965	\$ 91,471,939

See accompanying notes to financial statements.

**COMMONWEALTH PORTS AUTHORITY**

**Statements of Cash Flows**  
**Years Ended September 30, 2001 and 2000**  
**(With Combining Divisional Information for the year ended September 30, 2001)**

	Airport Division	Seaport Division	2001	2000
<b>Cash flows from operating activities:</b>				
Operating (loss) income	\$ (3,646,483)	\$ 767,264	\$ (2,879,219)	\$ (1,924,169)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation and amortization	5,287,853	2,392,972	7,680,825	7,774,451
Bad debts	61,485	316,777	378,262	421,550
(Increase) decrease in assets:				
Receivables - operations	(198,527)	(264,565)	(463,092)	(903,808)
Interdivisional accounts	(146,816)	146,816	-	-
Receivables - officers and employees	3,338	5,819	9,157	(17,738)
Prepaid expenses	(90,750)	-	(90,750)	-
Related parties	(536,066)	-	(536,066)	(889,148)
Increase (decrease) in liabilities:				
Accounts payable - trade and other	(47,058)	(9,970)	(57,028)	56,141
Related parties	102,858	13,935	116,793	109,061
Accrued expenses	127,912	26,647	154,559	105,678
Deferred income	(392)	-	(392)	(102,462)
<b>Net cash provided by operating activities</b>	<b>917,354</b>	<b>3,395,695</b>	<b>4,313,049</b>	<b>4,629,556</b>
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of property, plant and equipment	(10,169,283)	(688,596)	(10,857,879)	(3,610,548)
Net receipts from grantor agencies	8,842,902	-	8,842,902	1,851,678
Principal paid on revenue bond maturities	(210,233)	(422,611)	(632,844)	(597,594)
Additional bond issue costs	(13,000)	(15,000)	(28,000)	(81,725)
Payments on note payable to related party	-	(403,377)	(403,377)	(586,463)
Interest paid on revenue bonds and note payable to related party	(1,278,048)	(2,453,359)	(3,731,407)	(4,000,920)
<b>Net cash used for capital and related financing activities</b>	<b>(2,827,662)</b>	<b>(3,982,943)</b>	<b>(6,810,605)</b>	<b>(7,025,572)</b>
<b>Cash flows from investing activities:</b>				
Net investment (purchases) liquidation, unrestricted	(18,074)	30,172	12,098	(451,816)
Net investment liquidation (purchases), restricted	1,166,013	(381,374)	784,639	(280,786)
Interest income	537,450	414,778	952,228	1,051,904
Federal grants	-	-	-	138,614
Other (expense) income, net	(591,389)	-	(591,389)	372,674
<b>Net cash provided by investing activities</b>	<b>1,094,000</b>	<b>63,576</b>	<b>1,157,576</b>	<b>830,590</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(816,308)</b>	<b>(523,672)</b>	<b>(1,339,980)</b>	<b>(1,565,426)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>3,830,255</b>	<b>1,014,707</b>	<b>4,844,962</b>	<b>6,410,388</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 3,013,947</b>	<b>\$ 491,035</b>	<b>\$ 3,504,982</b>	<b>\$ 4,844,962</b>

**Supplemental disclosure of noncash capital and related financing activity:**

During the year ended September 30, 2000, the interest rate on the note payable was decreased from 5% to 2.5%, beginning November 16, 1999 and applied retroactively to November 16, 1996. The excess interest paid between November 16, 1996 and November 16, 1999 is applied to the principal of the loan amounting to \$1,018,675 (see note 8).

See accompanying notes to financial statements.

## COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

### (1) Organization

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

### (2) Summary of Significant Accounting Policies

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

#### Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the balance sheets. Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases and decreases in net total assets.

The accrual basis of accounting is utilized for proprietary funds. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

#### Budgets

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

#### Cash and Cash Equivalents

For the purposes of the balance sheets and the statements of cash flows, cash and cash equivalents is defined as cash held in demand deposits, savings and time certificates of deposit with a maturity date within three months of the date acquired. As of September 30, 2001 and 2000, total cash and cash equivalents were \$3,504,982 and \$4,844,962, respectively, and the corresponding bank balance was \$3,549,935 and \$4,925,720, respectively. Of the bank balance amount, \$3,549,935 and \$4,925,720, respectively, is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of \$100,000 were FDIC insured as of September 30, 2001 and 2000. CNMI law does not require component unit funds to be collateralized and thus CPA's funds, in excess of FDIC insurance, are uncollateralized.



# COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

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

### Capitalization of Interest

CPA capitalizes interest in order to recognize all costs associated with the airport and seaport construction projects based on CPA's weighted average borrowing rate. During the years ended September 30, 2001 and 2000, \$514,548 and \$572,533, respectively, of eligible interest expense was capitalized.

### Investments

CPA values its investments based on fair values in accordance with GASB Statement No. 31. CNMI Public Law 2-48, Section 31, requires that all CPA's 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 which management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectibility of these accounts and prior collection experience. The allowance is established through an allowance for doubtful accounts charged to bad debts expense.

### Property, Plant and Equipment

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

CPA follows the accounting principle generally accepted in the United States of America of recording grants-in-aid for the construction or acquisition of facilities and equipment as contributions. Under this principle, depreciation applicable to contributed assets is recorded as a reduction against the related contribution and depreciation applicable to non-contributed assets is recorded as a charge against income.

### Deferred Bond Issue Cost

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

### Retirement Plan

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

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Notes to Financial Statements  
September 30, 2001 and 2000

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

Plan members are required to contribute 6.5% and 9.0% of their annual covered salary for Class I and Class II members, respectively, and CPA is required to contribute at an actuarially determined rate. The current rate is 26.4% of annual covered payroll. The contribution requirements of plan members and CPA are established and may be amended by the Fund's Board of Trustees. CPA's contributions to the Fund for the years ended September 30, 2001, 2000 and 1999 were \$1,447,263, \$1,335,091, and \$1,238,717, respectively, equal to the required contributions for each year.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated vacation leave liability as of September 30, 2001 and 2000, is \$670,673 and \$665,701, respectively, and is included in accrued expenses in the accompanying financial statements.

Estimates

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

Reclassification

Certain 2000 balances in the accompanying financial statements have been reclassified to conform to the 2001 presentation.

(3) Receivables From Federal Grantor Agencies

Receivables from the U.S. Federal Aviation Administration and the U.S. Department of the Interior as of September 30, 2001 and 2000, are as follows:

	<u>2001</u>	<u>2000</u>
<u>U.S. Department of Transportation</u>		
<u>Federal Aviation Administration</u>		
Saipan International Airport, AIP Project No. 3-69-0002-19/29	\$ -	\$ 113,040
Saipan International Airport, AIP Project No. 3-69-0002-24	39,171	96,497
Saipan International Airport, AIP Project No. 3-69-0002-26	-	11,956
Saipan International Airport, AIP Project No. 3-69-0002-28	-	412,936
Saipan International Airport, AIP Project No. 3-69-0002-30	-	20,484
Rota International Airport, AIP Project No. 3-69-0003-11	133,708	-
Tinian International Airport, AIP Project No. 3-69-0011-06	192,517	94,846

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Notes to Financial Statements  
September 30, 2001 and 2000

(3) Receivables From Federal Grantor Agencies, Continued

	<u>2001</u>	<u>2000</u>
<u>U.S. Department of Transportation</u>		
<u>Federal Aviation Administration, Continued</u>		
Tinian International Airport, AIP Project No. 3-69-0011-07	316,552	923
Tinian International Airport, AIP Project No. 3-69-0011-08	451,827	922
Tinian International Airport, AIP Project No. 3-69-0011-09	100,985	922
Tinian International Airport, AIP Project No. 3-69-0011-10	-	922
<u>U.S. Department of the Interior</u>		
OMIP Grant	-	36,556
	<u>\$ 1,234,760</u>	<u>\$ 790,004</u>

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

(4) Investments

Unrestricted investments are carried at fair value. These investments are held in fixed income securities funds, U.S. Government securities, U.S. Government money market funds, time certificates of deposit and cash management funds as of September 30, 2001 and 2000.

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

	<u>2001</u>	<u>2000</u>
<u>Airport Investments</u>		
Bond Reserve Fund	\$ 1,574,523	\$ 1,574,298
Construction Fund	1,677,917	2,545,627
Bond Fund	399,795	371,902
Maintenance and Operation	<u>13,538</u>	<u>339,959</u>
	<u>\$ 3,665,773</u>	<u>\$ 4,831,786</u>
<u>Seaport Investments</u>		
Bond Reserve Fund	\$ 2,684,104	\$ 5,709,076
Supplemental Reserve Fund	4,241,067	849,416
Reimbursement Fund	4,994	4,785
Bond Fund	27,374	16,769
Maintenance and Operation	<u>5,361</u>	<u>1,480</u>
	<u>\$ 6,962,900</u>	<u>\$ 6,581,526</u>

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Notes to Financial Statements  
September 30, 2001 and 2000

(4) Investments, Continued

At September 30, 2001 and 2000, investments held in these funds consist of U.S. Government securities, U.S. Government treasury bills and U.S. Government money market funds. These investments are presented at fair value. Total investments of CPA are insured to \$100,000 with the remaining balance being uninsured as of September 30, 2001 and 2000.

CPA's investments at fair value, as of September 30, 2001 and 2000, are summarized below:

	<u>2001</u>	<u>2000</u>
<u>Airport Division</u>		
Short-term investments, unrestricted:		
Cash management fund	\$ 734,743	\$ 34,876
U.S. Government money market fund	2,902,959	2,921,840
U.S. Government securities	<u>504,298</u>	<u>1,167,210</u>
	<u>4,142,000</u>	<u>4,123,926</u>
Investments, restricted:		
U.S. Government money market fund	2,092,048	3,257,488
U.S. Government securities	<u>1,573,725</u>	<u>1,574,298</u>
	<u>3,665,773</u>	<u>4,831,786</u>
Total Airport Division	<u>\$ 7,807,773</u>	<u>\$ 8,955,712</u>
<u>Seaport Division</u>		
Short-term investments, unrestricted:		
U.S. Government securities	\$ -	\$ 129,065
Cash management fund	<u>631,348</u>	<u>532,455</u>
	<u>631,348</u>	<u>661,520</u>
Investments, restricted:		
U.S. Government securities	2,683,136	2,700,915
U.S. Government money market fund	<u>4,279,764</u>	<u>3,880,611</u>
	<u>6,962,900</u>	<u>6,581,526</u>
Total Seaport Division	<u>\$ 7,594,248</u>	<u>\$ 7,243,046</u>

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

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Notes to Financial Statements  
September 30, 2001 and 2000

(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, 2001 and 2000, are summarized below (with combining information as of September 30, 2001):

	<u>Airport Division</u>	<u>Seaport Division</u>	<u>Totals</u>	
			<u>2001</u>	<u>2000</u>
Accounts receivable	\$ 1,622,922	\$ 2,001,294	\$ 3,624,216	\$ 3,215,564
Less allowance for doubtful accounts	<u>(164,597)</u>	<u>(901,354)</u>	<u>(1,065,951)</u>	<u>(742,129)</u>
	<u>\$ 1,458,325</u>	<u>\$ 1,099,940</u>	<u>\$ 2,558,265</u>	<u>\$ 2,473,435</u>

(6) Property, Plant and Equipment

Property, plant and equipment and construction-in-progress balances consist of the following detailed balances as of September 30, 2001 and 2000:

	<u>Estimated Useful Lives</u>	<u>2001</u>			
		<u>Airport Division</u>		<u>Seaport Division</u>	
		<u>Contributed</u>	<u>Non - Contributed</u>	<u>Contributed</u>	<u>Non - Contributed</u>
Runway and improvements	20 years	\$ 34,536,743	\$ 3,763,672	\$ -	\$ -
Other improvements	3 - 10 years	2,306,989	2,530,651	-	2,014,625
Terminal facilities	20 years	23,643,149	33,317,622	-	-
Terminal equipment	2 - 10 years	1,694,610	6,800,386	-	-
Harbor facilities	20 years	-	-	13,732,032	48,032,700
Grounds maintenance and shop equipment	2 - 5 years	-	416,770	-	62,729
Fire and rescue equipment	2 - 8 years	1,569,146	234,583	-	-
Office furniture and fixtures	2 - 10 years	-	631,669	-	102,404
General transportation	3 - 5 years	-	728,367	-	59,871
Other	3 - 5 years	-	-	-	<u>572,725</u>
		<u>63,750,637</u>	<u>48,423,720</u>	<u>13,732,032</u>	<u>50,845,054</u>
Less accumulated depreciation		<u>(27,937,140)</u>	<u>(25,073,766)</u>	<u>(4,571,309)</u>	<u>(6,687,217)</u>
Property, plant and equipment, net		35,813,497	23,349,954	9,160,723	44,157,837
Land		-	-	-	464,429
Construction-in-progress		<u>8,502,745</u>	<u>8,608,252</u>	<u>-</u>	<u>621,233</u>
		<u>\$ 44,316,242</u>	<u>\$ 31,958,206</u>	<u>\$ 9,160,723</u>	<u>\$ 45,243,499</u>
Divisional totals - 2001			<u>\$ 76,274,448</u>	<u>\$ 54,404,222</u>	
Total - 2001			<u>\$ 130,678,670</u>		

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

(6) Property, Plant and Equipment, Continued

	Estimated Useful Lives	2000			
		Airport Division		Seaport Division	
		Contributed	Non - Contributed	Contributed	Non - Contributed
Runway and improvements	20 years	\$ 30,477,441	\$ 3,813,931	\$ -	\$ -
Other improvements	3 - 10 years	2,306,989	2,489,606	-	1,799,164
Terminal facilities	20 years	23,643,149	33,140,053	-	-
Terminal equipment	2 - 10 years	1,694,610	6,569,689	-	-
Harbor facilities	20 years	-	-	13,732,032	47,903,040
Grounds maintenance and shop equipment	2 - 5 years	-	406,193	-	62,729
Fire and rescue equipment	2 - 8 years	1,545,195	248,652	-	-
Office furniture and fixtures	2 - 10 years	-	615,518	-	101,263
General transportation	3 - 5 years	-	704,467	-	59,871
Other	3 - 5 years	-	-	-	571,461
		<u>59,667,384</u>	<u>47,988,109</u>	<u>13,732,032</u>	<u>50,497,528</u>
Less accumulated depreciation		<u>(25,423,730)</u>	<u>(22,299,323)</u>	<u>(4,065,095)</u>	<u>(4,800,459)</u>
Property, plant and equipment, net		<u>34,243,654</u>	<u>25,688,786</u>	<u>9,666,937</u>	<u>45,697,069</u>
Land		-	-	-	464,429
Construction-in-progress		<u>3,298,337</u>	<u>7,399,415</u>	<u>-</u>	<u>175,705</u>
		<u>\$ 37,541,991</u>	<u>\$ 33,088,201</u>	<u>\$ 9,666,937</u>	<u>\$ 46,337,203</u>
Divisional totals - 2000			<u>\$ 70,630,192</u>	<u>\$ 56,004,140</u>	
Total - 2000			<u>\$ 126,634,332</u>		

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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

(7) Revenue Bonds Payable

Airport

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

Interest on the bonds is payable semi-annually, at 6.25%, on March 15 and September 15 of each year, commencing on September 15, 1998, at the various rates noted below. Revenue bonds payable as of September 30, 2001 and 2000, consist of the following:

	<u>2001</u>	<u>2000</u>
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2002 and 2028 are listed below.	\$ 19,275,000	\$ 19,550,000
Deferred costs of debt refunding	<u>(298,365)</u>	<u>(363,132)</u>
	18,976,635	19,186,868
Current portion	<u>290,000</u>	<u>275,000</u>
Long-term portion	<u>\$ 18,686,635</u>	<u>\$ 18,911,868</u>

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

<u>Year</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest</u>
2002	\$ 290,000	\$ 1,195,625	2016	\$ 680,000	\$ 794,375
2003	\$ 310,000	\$ 1,176,875	2017	\$ 720,000	\$ 750,625
2004	\$ 330,000	\$ 1,156,875	2018	\$ 770,000	\$ 704,063
2005	\$ 350,000	\$ 1,135,625	2019	\$ 815,000	\$ 654,531
2006	\$ 370,000	\$ 1,113,125	2020	\$ 865,000	\$ 602,031
2007	\$ 395,000	\$ 1,089,219	2021	\$ 920,000	\$ 546,250
2008	\$ 420,000	\$ 1,063,750	2022	\$ 980,000	\$ 486,875
2009	\$ 445,000	\$ 1,036,719	2023	\$ 1,040,000	\$ 423,750
2010	\$ 475,000	\$ 1,007,969	2024	\$ 1,105,000	\$ 356,719
2011	\$ 500,000	\$ 977,500	2025	\$ 1,175,000	\$ 285,469
2012	\$ 535,000	\$ 945,156	2026	\$ 1,245,000	\$ 209,844
2013	\$ 565,000	\$ 910,781	2027	\$ 1,325,000	\$ 129,531
2014	\$ 600,000	\$ 874,375	2028	\$ 1,410,000	\$ 44,063
2015	\$ 640,000	\$ 835,625			

**COMMONWEALTH PORTS AUTHORITY**

Notes to Financial Statements  
September 30, 2001 and 2000

**(7) Revenue Bonds Payable, Continued**

**Airport, Continued**

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

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

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

**Seaport**

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

Interest on the bonds is payable semi-annually, at 6.85% and at 6.6% subsequent to March 15, 2000, on March 15 and September 15 of each year, commencing on September 15, 1998. Revenue bonds payable as of September 30, 2001 and 2000, consist of the following:

	<u>2001</u>	<u>2000</u>
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2002 and 2028 are listed below.	\$ 32,500,000	\$ 32,950,000
Deferred costs of debt refunding	(1,263,731)	(1,291,120)
	31,236,269	31,658,880
Current portion	480,000	400,000
Long-term portion	\$ 30,756,269	\$ 31,258,880

During the year ended September 30, 2001, the Bond Trustee revised the debt service schedule. The net effect of the change was an increase to the annual debt service of \$15,000.



COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

(7) Revenue Bonds Payable, Continued

Seaport, Continued

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

<u>Year</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest</u>
2002	\$ 480,000	\$ 2,129,150	2016	\$ 1,140,000	\$ 1,423,290
2003	\$ 510,000	\$ 2,096,480	2017	\$ 1,215,000	\$ 1,345,575
2004	\$ 545,000	\$ 2,061,675	2018	\$ 1,295,000	\$ 1,262,745
2005	\$ 575,000	\$ 2,024,715	2019	\$ 1,375,000	\$ 1,174,635
2006	\$ 615,000	\$ 1,985,445	2020	\$ 1,465,000	\$ 1,080,915
2007	\$ 655,000	\$ 1,943,535	2021	\$ 1,560,000	\$ 981,090
2008	\$ 695,000	\$ 1,898,985	2022	\$ 1,660,000	\$ 874,830
2009	\$ 740,000	\$ 1,851,630	2023	\$ 1,765,000	\$ 761,805
2010	\$ 785,000	\$ 1,801,305	2024	\$ 1,875,000	\$ 641,685
2011	\$ 840,000	\$ 1,747,680	2025	\$ 1,995,000	\$ 513,975
2012	\$ 890,000	\$ 1,690,590	2026	\$ 2,125,000	\$ 378,015
2013	\$ 950,000	\$ 1,629,870	2027	\$ 2,260,000	\$ 233,310
2014	\$ 1,010,000	\$ 1,565,190	2028	\$ 2,405,000	\$ 79,365
2015	\$ 1,075,000	\$ 1,496,385			

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

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

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

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, 2001, except for the insurance coverage requirement related to the Airport bond indenture and the collection of gross revenues requirement related to the Airport and Seaport bond indentures.

(8) Notes Payable to Related Party

CPA's note payable is as follows:

	<u>2001</u>	<u>2000</u>
Promissory note due to the Commonwealth Development Authority (CDA) (a component unit of the CNMI), interest at 2.5% per annum, with maturity date of November 16, 2014. Principal and interest payments in the amount of \$204,113 are due quarterly.	\$ 9,359,156	\$ 9,762,533

## COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000(8) Notes Payable to Related Party, Continued

	<u>2001</u>	<u>2000</u>
Less amounts due within one year	<u>(737,251)</u>	<u>(577,783)</u>
Long-term debt	<u>\$ 8,621,905</u>	<u>\$ 9,184,750</u>

On April 6, 2000, CPA and CDA executed an amendment to the loan agreement reducing interest from 5% to 2.5% per annum, beginning November 16, 1999 and applied retroactively to November 16, 1996. Excess interest paid by CPA between November 16, 1996 and November 16, 1999 is applied to the principal of the loan amounting to \$1,018,675, which is reflected as gain on debt restructure in the accompanying financial statements. The maturity date was extended from June 1, 2012 to November 16, 2014.

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

<u>Year ending September 30,</u>	<u>Principal Amount</u>	<u>Interest</u>
2002	\$ 737,251	\$ 283,315
2003	606,562	209,891
2004	621,869	194,584
2005	637,562	178,891
2006	653,652	162,802
Subsequent years	<u>6,102,260</u>	<u>673,783</u>
	<u>\$ 9,359,156</u>	<u>\$ 1,703,266</u>

(9) Contributed Capital

Capital improvement contribution balances consisted of the following detailed balances as of September 30, 2001 and 2000 (with combining information as of September 30, 2001 and 2000):

	<u>2001</u>		
	<u>Airport Division</u>	<u>Seaport Division</u>	<u>Total</u>
U.S. Federal Aviation Administration	\$ 57,732,057	\$ -	\$ 57,732,057
Commonwealth of the Northern Mariana Islands	4,437,419	4,039,779	8,477,198
U.S. Economic Development Administration	2,282,839	-	2,282,839
Trust Territory of the Pacific Islands	1,851,015	-	1,851,015
U.S. Department of the Interior	5,448,900	10,000,000	15,448,900
U.S. Federal Emergency Management Agency	<u>517,171</u>	<u>156,681</u>	<u>673,852</u>
	72,269,401	14,196,460	86,465,861
Less amortization of contributed assets	<u>(27,937,140)</u>	<u>(4,571,319)</u>	<u>(32,508,459)</u>
	<u>\$ 44,332,261</u>	<u>\$ 9,625,141</u>	<u>\$ 53,957,402</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

(9) Contributed Capital, Continued

	<u>2000</u>		
	<u>Airport Division</u>	<u>Seaport Division</u>	<u>Total</u>
U.S. Federal Aviation Administration	\$ 51,941,469	\$ -	\$ 51,941,469
Commonwealth of the Northern Mariana Islands	940,349	4,039,779	4,980,128
U.S. Economic Development Administration	2,282,839	-	2,282,839
Trust Territory of the Pacific Islands	1,851,015	-	1,851,015
U.S. Department of the Interior	5,448,900	10,000,000	15,448,900
U.S. Federal Emergency Management Agency	<u>517,171</u>	<u>156,681</u>	<u>673,852</u>
	62,981,743	14,196,460	77,178,203
Less amortization of contributed assets	<u>(25,423,730)</u>	<u>(4,065,105)</u>	<u>(29,488,835)</u>
	<u>\$ 37,558,013</u>	<u>\$ 10,131,355</u>	<u>\$ 47,689,368</u>

(10) Risk Management

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

(11) Related Party Transactions

Total related party transactions for the years ended September 30, 2001 and 2000, and the related receivable and payable balances, are as follows:

	<u>2001</u>		
	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Commonwealth Development Authority	\$ 238,670	\$ -	\$ -
Commonwealth Utilities Corporation	311,267	3,194,823	16,272
CNMI Government	115,111	-	608,756
Northern Mariana Islands Retirement Fund	<u>1,447,263</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,112,311</u>	<u>\$ 3,194,823</u>	<u>\$ 625,028</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

(11) Related Party Transactions, Continued

		<u>2000</u>	
	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Commonwealth Development Authority	\$ 376,821	\$ -	\$ -
Commonwealth Utilities Corporation	294,519	2,658,757	14,588
CNMI Government	102,301	-	493,647
Northern Mariana Islands Retirement Fund	<u>1,335,091</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,108,732</u>	<u>\$ 2,658,757</u>	<u>\$ 508,235</u>

A note payable to CDA amounted to \$9,359,156 and \$9,762,533 at September 30, 2001 and 2000, respectively. Interest expense on this note for the years ended September 30, 2001 and 2000 amounted to \$238,670 and \$376,821, respectively. On April 6, 2000, certain terms of the note were amended (see note 8).

On November 9, 1998, a Memorandum of Agreement (MOA) was executed between CPA and the Commonwealth Utilities Corporation (CUC) specifying terms and conditions of a Sewerline Project. It has been determined that 29.4% of the total cost of the project (\$4,887,808) is attributable to CPA, with the remaining 70.6% attributable to CUC. Based on the MOA, CPA, as signatory party to the project contract, will pay for all progress payments, subject to reimbursement by CUC, for the portion of the project costs that CUC has agreed to be responsible for. An amended MOA, dated April 14, 1999, states that the project will be transferred to CUC upon completion and at that time a note receivable will evidence CUC's share of the project cost. The total cost of the project incurred amounted to \$4,285,820 and \$3,526,520 as of September 30, 2001 and 2000, respectively. The project is in progress and, accordingly, 29.4% is recorded as construction in progress and 70.6% is recorded as receivable from related party, noncurrent, at September 30, 2001 and 2000.

(12) 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, 2001 and 2000, amounted to \$4,837,117 and \$4,947,991, respectively. Minimum future lease income is as follows:

<u>Year ending September 30,</u>	<u>Minimum Lease Income Due</u>
2002	\$ 1,279,655
2003	1,287,853
2004	1,156,358
2005	1,021,597
2006	891,362
Thereafter	<u>12,641,347</u>
	<u>\$ 18,278,172</u>

## COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements  
September 30, 2001 and 2000

### (12) Commitment and Contingencies, Continued

#### Contingencies

CPA incurred a combined net loss from its two divisions of \$5,792,632 during the year ended September 30, 2001. Management's plans to increase revenues and/or decrease costs are as follows:

- a) Implement cost cutting measures - The Board of Directors approved and initiated the implementation of certain austerity measures in an attempt to reduce operating costs.
- b) Explore non-aviation revenue generating options.

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

A lawsuit was filed against CPA by a former employee alleging misconduct by an immediate superior during working hours. The former employee is seeking an undisclosed amount of damages. The eventual outcome of this matter cannot be reasonably predicted by management and, accordingly, no provision for any liability or potential loss that may result from settlement of this claim has been recorded in the financial statements.

At September 30, 2001, the Airport facilities were underinsured by approximately \$11,074,531. In the event of an accident, CPA may be partially self-insured to a material extent.

During the year ended September 30, 2001, CPA incurred expenditures in the amount of \$587,706 related to cleanup efforts as a result of a jet fuel leakage on its property. The property is currently being leased by a tenant responsible for the leakage. Although CPA has paid for the cleanup efforts, management believes the tenant should be responsible for fifty percent (50%) of the total cost incurred if not all. Management is currently negotiating the terms with the tenant. As of September 30, 2001, a decision from the tenant was still pending. Accordingly, the total expenses incurred are included in other expense in the accompanying financial statements.

During the year ended September 30, 2000, CPA assessed penalties amounting to \$645,000 against a contractor for the substantial delay of a project located in Rota. The contractor agreed to offset the outstanding retention balance due them of \$236,217 and perform additional work amounting to \$170,000 against the amount claimed by CPA. The contractor, however, is disputing the remaining balance of \$238,783. Loss of revenues incurred by CPA as a result of the delay on this project amounted to \$213,696 and, accordingly, penalties amounting to \$213,696 have been recorded as other income.

### (13) Major Customers

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