

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, 2014

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

**FINANCIAL STATEMENTS,
ADDITIONAL REPORTING AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2014 AND 2013

INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Ports Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth Ports Authority as of September 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

CPA did not record deficient employer contributions due to a related party at September 30, 2014 and 2013 as discussed in note 11 to the financial statements.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The supplementary information is the responsibility of CPA's management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise CPA's basic financial statements. The Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows as of and for the year ended September 30, 2014 (pages 36 through 38) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2015 on our consideration of CPA's 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CPA's internal control over financial reporting and compliance.

Deloitte & Touche LLC

June 24, 2015



COMMONWEALTH PORTS AUTHORITY

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED SEPTEMBER 30, 2014

This section of the Commonwealth Ports Authority's (herein referred to as "CPA") audit report presents our discussion and analysis of CPA's activities and financial performance during the fiscal year ended September 30, 2014, with selected comparative information for the fiscal years ended September 30, 2013 and 2012. Please read it in conjunction with the detailed information contained within the accompanying financial statements. The nationally recognized accounting firm of Deloitte & Touche LLC has issued an unqualified audit opinion.

INTRODUCTION

CPA is a component unit of the Government of the Commonwealth of the Northern Mariana Islands (the CNMI) and was established as a public corporation on November 8, 1981 by CNMI Public Law 2-48. A seven-member Board of Directors appointed by the Governor to serve four-year terms governs CPA. 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 with 139 employees on Saipan, 27 employees on Rota and 29 employees on Tinian.

The notes to the financial statements are essential to fully understand the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt compliance 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 the accrual basis of accounting 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 notes to the accompanying audited financial statements.

OVERVIEW OF FINANCIAL STATEMENTS, CONTINUED

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

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

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will result in cash flows in future periods.

The Statement of Cash Flows presents information related to CPA's cash receipts and cash payments during the fiscal year and its ability to generate net cash flows and meet its obligations as they become due and its needs for external financing.

FINANCIAL HIGHLIGHTS

Total assets and deferred outflows for the airport and seaport operations combined increased by 4% or \$8,683,868 from \$230,484,877 in FY2013 to \$239,168,745 in FY2014 and by 2% or \$5,367,176 from \$225,117,701 in FY2012 to \$230,484,877 in FY2013.

Net position for the airport and seaport operations combined increased by 4% or \$7,688,436 from \$172,028,318 in FY2013 to \$179,716,754 in FY2014 and increased by 6% or \$9,677,130 from \$162,351,188 in FY2012 to \$172,028,318 in FY2013. Net position represents the amount that total assets exceed total liabilities.

Operating revenues for the airport and seaport operations combined increased by 9% or \$1,666,256 from \$19,393,606 in FY2013 to \$21,059,862 in FY2014 and by 5% or \$977,405 from \$18,416,201 in FY2012 to \$19,393,606 in FY2013. Operating revenues for the Airport Division increased by 8% or \$1,013,186 from \$13,408,700 in FY2013 to \$14,421,886 in FY2014 and by 9% or \$1,057,950 from \$12,350,750 in FY2012 to \$13,408,700 in FY2013. Operating revenues for the Seaport Division increased by 11% or \$653,070 from \$5,984,906 in FY2013 to \$6,637,976 in FY2014 and decreased by 1% or \$80,545 from \$6,065,451 in FY2012 to \$5,984,906 in FY2013.

Operating expenses (excluding depreciation and amortization) for the airport and seaport operations combined decreased by 7% or \$857,574 from \$12,204,644 in FY2013 to \$11,347,070 in FY2014 mainly due to the decrease in utility expenses. Operating expenses decreased by 14% or \$1,749,922 from \$13,954,566 in FY2012 to \$12,204,644 in FY2013, largely due to the withdrawal of employees from the Defined Benefit Retirement Plan, resulting in a decreased of employer contributions to the Retirement Fund.

The Airport Division aviation revenue increased by \$132,078 due to an increase in charter flights at the Saipan International Airport. The Airport Division was in compliance with its Bond Indenture for FY2014 and expects to be in compliance with the Agreement for FY2015.

FINANCIAL HIGHLIGHTS, CONTINUED

The Seaport Division performed a rate study in 2008, which resulted in a tariff increase in March 2009. This was performed due to the departure of the garment industry and the drastic decline in port revenue tons. It was through this effort that revenues increased in order to be in compliance with the Bond Indenture Agreement for 2009 and thereafter. In FY2014, the Seaport Division seaport fees increased by \$602,864 due to an increase in revenue tonnage. The Seaport Division was in compliance with its 1998 and 2005 Bond Indenture Agreements (the Agreements) for FY2014. CPA expects the Seaport Division to be in compliance with the Agreement for FY2015.

Combined Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows as of and for the year ended September 30, 2014 follows, with comparative information as of and for the years ended September 30, 2013 and 2012:

	Statements of Net Position		
	2014	2013	2012 (As Restated)
Assets and Deferred Outflows			
Current assets:			
Cash	\$ 20,844,321	\$ 12,464,858	\$ 10,329,961
Receivables	4,868,138	3,857,296	6,290,779
Prepaid expenses	264,433	304,220	176,294
Investments, restricted for debt service and other purposes	<u>17,918,281</u>	<u>17,024,045</u>	<u>17,313,055</u>
Total current assets	<u>43,895,173</u>	<u>33,650,419</u>	<u>34,110,089</u>
Capital assets, net	<u>194,471,853</u>	<u>195,997,308</u>	<u>190,131,810</u>
Deferred outflows from cost of refunding debt	<u>801,719</u>	<u>837,150</u>	<u>875,802</u>
Total assets and deferred outflows	<u>\$ 239,168,745</u>	<u>\$ 230,484,877</u>	<u>\$ 225,117,701</u>
Liabilities and Net Position			
Current liabilities:			
Revenue bonds payable, current portion	\$ 1,895,000	\$ 1,780,000	\$ 1,675,000
Note payable to related party, current portion	257,790	251,387	245,925
Contractors payable	6,066,991	3,786,058	4,993,294
Trade and other payables	287,146	188,067	151,901
Due to related parties	1,208,048	2,394,879	3,348,253
Accrued expenses	2,275,750	2,122,875	2,418,215
Unearned Revenues	1,779,563	80,046	30,309
Compensated absences, current portion	241,658	250,247	231,184
Total current liabilities	<u>14,011,946</u>	<u>10,853,559</u>	<u>13,094,081</u>
Noncurrent liabilities:			
Accrued interest payable	546,679	546,679	546,679
Compensated absences, net of current portion	304,970	321,615	366,053
Revenue bonds payable, net of current portion	40,088,747	41,978,967	43,754,187
Notes payable to related party, net of current portion	4,499,649	4,755,739	5,005,513
Total noncurrent liabilities	<u>45,440,045</u>	<u>47,603,000</u>	<u>49,672,432</u>
Total liabilities	<u>59,451,991</u>	<u>58,456,559</u>	<u>62,766,513</u>
Net position:			
Net investment in capital assets	148,532,386	148,068,365	140,326,987
Restricted	17,918,281	17,024,045	17,313,055
Unrestricted	<u>13,266,087</u>	<u>6,935,908</u>	<u>4,711,146</u>
Total net position	<u>179,716,754</u>	<u>172,028,318</u>	<u>162,351,188</u>
	<u>\$ 239,168,745</u>	<u>\$ 230,484,877</u>	<u>\$ 225,117,701</u>

Statements of Revenues, Expenses and Changes in Net Position

	2014	2013	2012 (As Restated)
Operating revenues:			
Aviation fees	\$ 7,415,707	\$ 7,283,629	\$ 6,739,492
Concession and lease income	6,686,714	5,899,754	5,336,016
Seaport fees	5,003,612	4,400,748	4,491,861
Other	1,953,829	1,809,475	1,848,832
	<u>21,059,862</u>	<u>19,393,606</u>	<u>18,416,201</u>
(Bad debts) recoveries	(392,797)	84,321	(482,162)
Operating revenues, net	<u>20,667,065</u>	<u>19,477,927</u>	<u>17,934,039</u>
Operating expenses:			
Depreciation and amortization	13,063,444	12,598,802	11,620,279
Salaries and wages	4,990,191	4,977,264	4,914,958
Insurance	1,132,247	1,374,827	1,398,887
Contractual services	1,065,781	755,850	917,221
Utilities	1,047,522	2,023,708	3,234,763
Employee benefits	608,015	645,120	1,437,431
Repairs and maintenance	544,948	486,879	412,891
Supplies	487,367	511,679	299,531
Professional fees	254,728	238,048	211,883
Travel	135,769	115,002	90,816
Promotion and advertising	39,273	38,783	27,065
Training	9,554	53,604	115,625
Other	1,031,675	983,880	893,495
Total operating expenses	<u>24,410,514</u>	<u>24,803,446</u>	<u>25,574,845</u>
Operating loss	<u>(3,743,449)</u>	<u>(5,325,519)</u>	<u>(7,640,806)</u>
Non-operating revenues (expenses):			
Recovery of a liability due to a related party	1,475,196	-	-
Passenger facility charges	2,153,654	2,310,214	1,756,681
Other Income	593,880	-	-
Other grant revenue and contributions	304,045	475,003	251,908
Interest income	251,986	262,938	333,555
Interest expense	(2,501,915)	(2,788,598)	(3,030,288)
Total non-operating revenues (expenses), net	<u>2,276,846</u>	<u>259,557</u>	<u>(688,144)</u>
Loss before capital contributions	<u>(1,466,603)</u>	<u>(5,065,962)</u>	<u>(8,328,950)</u>
Capital contributions	<u>9,155,039</u>	<u>14,743,092</u>	<u>8,026,867</u>
Changes in net position	<u>7,688,436</u>	<u>9,677,130</u>	<u>(302,083)</u>
Net position at beginning of year	<u>172,028,318</u>	<u>162,351,188</u>	<u>162,653,271</u>
Net position at end of year	<u>\$ 179,716,754</u>	<u>\$ 172,028,318</u>	<u>\$ 162,351,188</u>

Statements of Cash Flows

Cash flows from operating activities:			
Cash received from customers	\$ 22,205,938	\$ 19,007,815	\$ 19,475,413
Cash payments to suppliers for goods and services	(5,126,284)	(7,847,378)	(6,214,156)
Cash payments to employees for services	(5,623,440)	(5,647,759)	(6,315,883)
Net cash provided by operating activities	<u>11,456,214</u>	<u>5,512,678</u>	<u>6,945,374</u>
Cash flows from noncapital financing activity:			
Other grant revenues and contributions	304,045	475,003	251,908
Net cash provided by noncapital financing activity	<u>304,045</u>	<u>475,003</u>	<u>251,908</u>

Statements of Cash Flows, Continued

	2014	2013	2012
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(8,881,691)	(19,456,789)	(6,795,841)
Capital and other contributions received	8,262,367	17,621,068	6,116,672
Proceeds from settlement of capital project	593,880	-	-
Passenger facility charge receipts	2,153,654	2,310,214	1,756,681
Principal paid on revenue bond maturities	(1,780,000)	(1,675,000)	(1,580,000)
Payments on note payable to related party	(249,687)	(244,312)	(235,293)
Interest paid on revenue bonds and notes payable to related party	(2,837,069)	(2,959,913)	(3,140,856)
Net cash used for capital and related financing activities	(2,738,546)	(4,404,732)	(3,878,637)
Cash flows from investing activities:			
Net investment (purchases) liquidations, restricted interest income	(894,236)	289,010	(737,390)
	<u>251,986</u>	<u>262,938</u>	<u>333,555</u>
Net cash (used for) provided by investing activities	(642,250)	551,948	(403,835)
Net change in cash	8,379,463	2,134,897	2,914,810
Cash at beginning of year	<u>12,464,858</u>	<u>10,329,961</u>	<u>7,415,151</u>
Cash at end of year	\$ 20,844,321	\$ 12,464,858	\$ 10,329,961

CAPITAL ASSETS

At September 30, 2014, CPA had \$194,471,853 invested in capital assets, net of depreciation where applicable, including land, runways, 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 decrease of \$1,525,455 or 1% from last fiscal year.

	2014	2013	2012
Runway and improvements	\$ 113,856,055	\$ 113,856,055	\$ 113,833,981
Other improvements	26,571,597	26,598,973	26,567,586
Terminal facilities and equipment	111,221,409	112,104,727	105,272,939
Harbor facilities	63,601,422	63,635,195	63,635,195
Grounds maintenance and shop equipment	354,910	388,189	515,532
Fire and rescue equipment	11,574,506	11,514,281	11,527,325
Office furniture and fixtures	1,117,289	1,178,857	1,212,393
General transportation	1,275,013	1,300,004	1,149,924
Other	<u>2,670,854</u>	<u>2,614,419</u>	<u>2,394,909</u>
Less accumulated depreciation	332,243,055	333,190,700	326,109,784
	<u>(196,442,042)</u>	<u>(185,167,403)</u>	<u>(173,706,178)</u>
Total capital assets being depreciated	135,801,013	148,023,297	152,403,606
Construction in progress	58,206,411	47,509,582	37,263,775
Land	<u>464,429</u>	<u>464,429</u>	<u>464,429</u>
Total capital assets, net	\$ 194,471,853	\$ 195,997,308	\$ 190,131,810

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

RESTRICTED INVESTMENTS

Restricted investments for Airport and Seaport construction and debt service purposes represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds deposited with the Trustee. The balances as of September 30, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Airport			
Bond Reserve Fund	\$ 1,589,375	\$ 1,586,660	\$ 1,583,283
Bond Fund	428,720	411,190	390,721
Maintenance and Operation	1,908,612	1,282,857	2,029,752
Revenue Fund	724	724	724
Optional Redemption Fund	<u>12,101</u>	<u>12,100</u>	<u>12,100</u>
	<u>3,939,532</u>	<u>3,293,531</u>	<u>4,016,580</u>
Seaport			
Bond Reserve Fund	3,479,779	3,479,724	3,479,674
Supplemental Reserve Fund	8,034,239	8,034,239	8,034,239
Reimbursement Fund	5,809	5,807	5,807
Bond Fund	916,481	787,681	747,581
Maintenance and Operation	1,534,451	1,415,074	1,021,185
Construction Fund	7,179	7,178	7,178
Reserve Fund	<u>811</u>	<u>811</u>	<u>811</u>
	<u>13,978,749</u>	<u>13,730,514</u>	<u>13,296,475</u>
Total	\$ 17,918,281	\$ 17,024,045	\$ 17,313,055

Please refer to note 3 to the financial statements for additional information regarding CPA's restricted investments.

LONG-TERM DEBT

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 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 \$600,000. The long-term portion of the bond balance as of September 30, 2014 is \$12,260,000.

This 1998 bond was partially 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 through lower interest rates. The reacquisition price exceeded the net carrying amount of the old debt by \$503,906 which was fully 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.

1998 Seaport Revenue Bonds

On March 26, 1998, CPA issued a 1998 Series A \$33,775,000 tax-exempt revenue bond. Interest is 6.6% payable on March 15 and September 15 of each year, commencing September 1998 and ending in the year 2031.

LONG-TERM DEBT, CONTINUED

1998 Seaport Revenue Bonds

Payments for the 1998 Seaport bond are current. The current portion of the 1998 Seaport bond principal is \$1,075,000. The long-term portion of the bond balance as of September 30, 2014 is \$22,135,000.

The Seaport bond proceeds were partially used for a current refunding of \$22,470,000 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 which was recorded as a deferred outflow from cost of refunding 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.

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 primary purpose of financing 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 bonds at an interest rate of 5.5% payable 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 \$220,000. The long-term portion of the bond balance as of September 30, 2014 is \$5,775,000.

Note Payable to the Commonwealth Development Authority (CDA)

As of September 30, 2014, CPA has a promissory note of \$4,757,439 due to CDA (a component unit of the CNMI), with interest at 2.5% per annum and a maturity date of June 15, 2030. Principal and interest payments in the amount of \$31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling \$546,679 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first and, accordingly, is presented as long-term in the accompanying financial statements. The current portion of the note is \$257,790. The long-term portion of the note as of September 30, 2014 is \$4,499,649. The CDA obligation is subordinate to CPA's obligation for the Seaport bonds.

A summary of CPA's long-term debt balances as of September 30, 2014, 2013 and 2012 is as follows:

	2014	2013	2012
1998 Senior Series A Bonds - Airport	\$ 12,860,000	\$ 13,425,000	\$ 13,955,000
1998 Senior Series A Bonds - Seaport	\$ 23,210,000	\$ 24,220,000	\$ 25,170,000
2005 Senior Series A Bonds - Seaport	\$ 5,995,000	\$ 6,200,000	\$ 6,395,000
Note payable to CDA	\$ 4,757,439	\$ 5,007,126	\$ 5,251,438

Please refer to notes 7 and 8 to the financial statements for additional information regarding CPA's long-term debt.

REVENUE AND EXPENSE ANALYSIS

Airport and Seaport Combined Operating Revenues

	2014	2013	2012
Airport Seaport	\$ 14,421,886 <u>6,637,976</u>	\$ 13,408,700 <u>5,984,906</u>	\$ 12,350,750 <u>6,065,451</u>
	<u>\$ 21,059,862</u>	<u>\$ 19,393,606</u>	<u>\$ 18,416,201</u>

The Airport Division operating revenues increased in FY2014 as compared to FY2013. The increase was mainly due to the increase in charter flights as well as an increase in concession and lease income for the Francisco C. Ada/Saipan International Airport. The Seaport Division also experienced an increase in operating revenues in FY2014 as compared to FY2013 due to a growth in revenue tonnage and harbor activity in general.

The CPA Board of Directors implemented an increase of fees for the Airports that took effect in June of 2008. Additionally, an increase to the tariff for the Seaports was approved and implemented in March 2009. These increases in fees had a major impact on stabilizing each Division's revenues and allowing for future revenue growth.

Airport and Seaport Combined Operating Expenses

	2014	2013	2012
Airport			
Personnel expense	\$ 4,879,412	\$ 4,896,695	\$ 5,504,051
Maintenance and operations expense	<u>4,771,153</u>	<u>5,139,801</u>	<u>6,257,045</u>
	<u>9,650,565</u>	<u>10,036,496</u>	<u>11,761,096</u>
Seaport			
Personnel expense	718,794	725,689	848,338
Maintenance and operations expense	<u>977,711</u>	<u>1,442,459</u>	<u>1,345,132</u>
	<u>1,696,505</u>	<u>2,168,148</u>	<u>2,193,470</u>
Combined operating expenses	\$ 11,347,070	\$ 12,204,644	\$ 13,954,566

FY2012 BOND INDENTURE COMPLIANCE

FY2014 Bond/Debt Ratio Noncompliance

	Airport			Seaport		
	2014	2013	2012	2014	2013	2012
Required revenues for bond compliance	\$ 11,914,035	\$ 11,822,759	\$ 13,984,469	\$ 5,453,279	\$ 5,931,135	\$ 6,096,471
Actual revenues collected:						
Revenues and other income	14,421,886	13,408,700	12,350,750	6,637,976	5,984,906	6,065,451
Other grant revenue and contributions	246,727	252,585	251,908	57,318	222,418	-
Interest income	17,001	18,637	57,699	234,985	244,301	275,856
Passenger facility charge	<u>2,153,654</u>	<u>2,310,214</u>	<u>1,756,681</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>16,839,268</u>	<u>15,990,136</u>	<u>14,417,038</u>	<u>6,930,279</u>	<u>6,451,625</u>	<u>6,341,307</u>
Variance (noncompliance)	\$ 4,925,233	\$ 4,167,377	\$ 432,569	\$ 1,477,000	\$ 520,490	\$ 244,836

FY2012 BOND INDENTURE COMPLIANCE, CONTINUED

As illustrated in the above table, for FY2014, FY2013 and FY2012, CPA was able to generate sufficient revenues for the Airport and Seaport to meet its Bond Indenture requirements. A key factor contributing to CPA Airport's ability to meet these requirements is the FAA opinion allowing passenger facility charges to be considered as revenues for compliance calculations. As stated previously, revenues and expenses are being monitored on a quarterly basis so that steps can be taken to ensure compliance. The results from this activity are being used to construct a realistic budget for FY2015. It is management's intention to control expenses in a comprehensive manner to ensure there is a proper relationship to operating revenues.

REVENUE-BASED STATISTICS

AIRPORT DIVISION

	Enplaned Passengers	Deplaned Passengers	Landing Weights
Saipan			
FY 2012	513,472	472,920	777,238,017
FY 2013	514,187	487,852	852,608,730
FY 2014	505,036	482,879	831,135,756
Rota			
FY 2012	8,714	11,361	28,774,820
FY 2013	8,939	8,963	20,628,200
FY 2014	10,377	7,912	23,636,760
Tinian			
FY 2012	50,249	14,719	90,494,500
FY 2013	29,072	7,106	84,779,380
FY 2014	27,331	3,060	77,053,300
All Airports			
FY 2012	572,435	499,000	896,507,337
FY 2013	552,198	503,921	958,016,310
FY 2014	542,744	493,851	931,825,816

In FY2014, consolidated airport enplanements (air passenger departures) decreased by 2% and consolidated deplanements (air passenger arrivals) decreased by 3% from FY2013. These decreases are due to air carrier flight and route cancellations.

SEAPORT DIVISION

	Revenue Tons		Total
	Inbound	Outbound	
Saipan			
FY 2012	370,161	12,087	382,248
FY 2013	322,840	13,492	336,332
FY 2014	370,512	8,981	379,493

REVENUE-BASED STATISTICS, CONTINUED

SEAPORT DIVISION, CONTINUED

	Revenue Tons		
	Inbound	Outbound	Total
Rota			
FY 2012	5,240	1,069	6,309
FY 2013	4,051	3,805	7,856
FY 2014	4,768	973	5,741
Tinian			
FY 2012	19,669	1,088	20,757
FY 2013	14,811	993	15,804
FY 2014	15,717	381	16,098
All Seaports			
FY 2012	395,070	14,244	409,314
FY 2013	341,702	18,290	359,992
FY 2014	390,997	10,335	401,332

In FY2014, seaport inbound cargo increased by 14% and outbound cargo decreased by 43% for the three seaports combined from FY2013.

ECONOMIC OUTLOOK

The Airport aviation traffic for 2015 is forecasted to increase due to a new airline providing daily service to and from the Saipan International Airport. The Seaport gross revenue tons for 2015 is forecasted to slightly increase due to anticipated new construction projects in the CNMI. Management will continue to closely monitor the Airport and Seaport operating expenses in order to maintain a level to comply with respective Bond Indentures.

Management's Discussion and Analysis for the year ended September 30, 2013 is set forth in CPA's report on the audit of financial statements, which is dated May 28, 2014. That Discussion and Analysis explains the major factors impacting the 2013 financial statements and can be viewed at the Office of the Public Auditor's website at www.opacnmi.com.

CONTACTING CPA'S FINANCIAL MANAGEMENT

This financial report is designed to provide the branches of the CNMI Government and the public at large with a general overview of CPA's finances and to demonstrate its accountability for the monies received. If you have questions about this report or need additional financial information, contact Ms. Skye Lynn L. Aldan, Comptroller, P.O. Box 501055, Saipan, MP 96950-1055, or call (670) 237-6500 or email at skye.aldan@cpa.gov.mp.

COMMONWEALTH PORTS AUTHORITY

Statements of Net Position
September 30, 2014 and 2013

<u>ASSETS AND DEFERRED OUTFLOWS</u>	2014	2013
Current assets:		
Cash	\$ 20,844,321	\$ 12,464,858
Receivables:		
Grantor agencies	1,328,572	435,900
Operations, net	3,025,325	2,963,504
Related party, net	506,769	445,912
Officers and employees	7,472	11,980
Prepaid expenses	264,433	304,220
Investments, restricted for debt service and other purposes	<u>17,918,281</u>	<u>17,024,045</u>
Total current assets	<u>43,895,173</u>	<u>33,650,419</u>
Capital assets, net	<u>194,471,853</u>	<u>195,997,308</u>
Deferred outflows from cost of refunding debt	<u>801,719</u>	<u>837,150</u>
Total assets and deferred outflows	<u>\$ 239,168,745</u>	<u>\$ 230,484,877</u>
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Revenue bonds payable, current portion	\$ 1,895,000	\$ 1,780,000
Note payable to related party, current portion	257,790	251,387
Contractors payable	6,066,991	3,786,058
Trade and other payables	287,146	188,067
Due to related parties	1,208,048	2,394,879
Accrued expenses	2,275,750	2,122,875
Unearned revenues	1,779,563	80,046
Compensated absences, current portion	<u>241,658</u>	<u>250,247</u>
Total current liabilities	<u>14,011,946</u>	<u>10,853,559</u>
Noncurrent liabilities:		
Accrued interest payable	546,679	546,679
Compensated absences, net of current portion	304,970	321,615
Revenue bonds payable, net of current portion	40,088,747	41,978,967
Note payable to related party, net of current portion	<u>4,499,649</u>	<u>4,755,739</u>
Total noncurrent liabilities	<u>45,440,045</u>	<u>47,603,000</u>
Total liabilities	<u>59,451,991</u>	<u>58,456,559</u>
Commitment and contingencies		
Net position:		
Net investment in capital assets	148,532,386	148,068,365
Restricted	17,918,281	17,024,045
Unrestricted	<u>13,266,087</u>	<u>6,935,908</u>
Total net position	<u>179,716,754</u>	<u>172,028,318</u>
	<u>\$ 239,168,745</u>	<u>\$ 230,484,877</u>

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Aviation fees	\$ 7,415,707	\$ 7,283,629
Concession and lease income	6,686,714	5,899,754
Seaport fees	5,003,612	4,400,748
Other	<u>1,953,829</u>	<u>1,809,475</u>
	21,059,862	19,393,606
(Bad debts) recoveries	<u>(392,797)</u>	<u>84,321</u>
Operating revenues, net	<u>20,667,065</u>	<u>19,477,927</u>
Operating expenses:		
Depreciation and amortization	13,063,444	12,598,802
Salaries and wages	4,990,191	4,977,264
Insurance	1,132,247	1,374,827
Contractual services	1,065,781	755,850
Utilities	1,047,522	2,023,708
Employee benefits	608,015	645,120
Repairs and maintenance	544,948	486,879
Supplies	487,367	511,679
Professional fees	254,728	238,048
Travel	135,769	115,002
Promotion and advertising	39,273	38,783
Training	9,554	53,604
Other	<u>1,031,675</u>	<u>983,880</u>
Total operating expenses	<u>24,410,514</u>	<u>24,803,446</u>
Operating loss	<u>(3,743,449)</u>	<u>(5,325,519)</u>
Non-operating revenues (expenses):		
Passenger facility charges	2,153,654	2,310,214
Recovery of a liability due to a related party	1,475,196	-
Other income	593,880	-
Other grant revenues and contributions	304,045	475,003
Interest income	251,986	262,938
Interest expense	<u>(2,501,915)</u>	<u>(2,788,598)</u>
Total non-operating revenues (expenses), net	<u>2,276,846</u>	<u>259,557</u>
Loss before capital contributions	<u>(1,466,603)</u>	<u>(5,065,962)</u>
Capital contributions	<u>9,155,039</u>	<u>14,743,092</u>
Change in net position	7,688,436	9,677,130
Net position at beginning of year	<u>172,028,318</u>	<u>162,351,188</u>
Net position at end of year	<u>\$ 179,716,754</u>	<u>\$ 172,028,318</u>

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from customers	\$ 22,205,938	\$ 19,007,815
Cash payments to suppliers for goods and services	(5,126,284)	(7,847,378)
Cash payments to employees for services	<u>(5,623,440)</u>	<u>(5,647,759)</u>
Net cash provided by operating activities	<u>11,456,214</u>	<u>5,512,678</u>
Cash flows from noncapital financing activity:		
Other grant revenues and contributions	304,045	475,003
Net cash provided by noncapital financing activity	<u>304,045</u>	<u>475,003</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(8,881,691)	(19,456,789)
Capital and other contributions received	8,262,367	17,621,068
Proceeds from settlement of capital project	593,880	-
Passenger facility charge receipts	2,153,654	2,310,214
Principal paid on revenue bond maturities	(1,780,000)	(1,675,000)
Payments on note payable to related party	(249,687)	(244,312)
Interest paid on revenue bonds and note payable to related party	<u>(2,837,069)</u>	<u>(2,959,913)</u>
Net cash used for capital and related financing activities	<u>(2,738,546)</u>	<u>(4,404,732)</u>
Cash flows from investing activities:		
Net investment (purchases) liquidations, restricted	(894,236)	289,010
Interest income	<u>251,986</u>	<u>262,938</u>
Net cash (used for) provided by investing activities	<u>(642,250)</u>	<u>551,948</u>
Net change in cash	8,379,463	2,134,897
Cash at beginning of year	<u>12,464,858</u>	<u>10,329,961</u>
Cash at end of year	<u>\$ 20,844,321</u>	<u>\$ 12,464,858</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (3,743,449)	\$ (5,325,519)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	13,063,444	12,598,802
(Recoveries) bad debts	392,797	(84,321)
Recovery	1,475,196	-
(Increase) decrease in assets:		
Receivables - operations	(454,618)	(269,253)
Receivables - officers and employees	4,508	(3,011)
Prepaid expenses	39,787	(127,926)
Receivables - related parties	(60,857)	(87,908)
Increase (decrease) in liabilities:		
Trade and other payables	99,079	36,166
Due to related parties	(1,186,831)	(953,374)
Accrued expenses	152,875	(295,340)
Deferred income	1,699,517	49,737
Compensated absences	<u>(25,234)</u>	<u>(25,375)</u>
Net cash provided by operating activities	<u>\$ 11,456,214</u>	<u>\$ 5,512,678</u>

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements September 30, 2014 and 2013

(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. CPA utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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 position. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net position. 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, investments, receivables and receivables from related party.

At September 30, 2014 and 2013, CPA has cash deposits and investments in bank accounts that exceed federal depository insurance limits. CPA has not experienced any losses on such accounts.

As of September 30, 2014 and 2013, concentrations of credit risk result from receivables from significant customers and receivable from a related party which represent 37% and 40%, respectively, of total receivables. Management assesses the risk of loss and provides an allowance for doubtful accounts to compensate for known credit risk.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Cash

For the purposes of the statements of net position and the statements of cash flows, cash is defined as cash on hand, demand deposits and savings. 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. Eligible interest expense of \$375,365 and \$214,747 was capitalized during the years ended September 30, 2014 and 2013, respectively. 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 collectability of these accounts and prior collection experience. The allowance is established through an allowance for doubtful accounts charged to bad debts expense. Bad debts are written-off against the allowance based on the specific identification method.

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 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 expensed in the period incurred.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

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 position.

Retirement Plan

CPA contributed to the Northern Mariana Islands Retirement Fund's (NMIRF) defined benefit plan (DB Plan), a cost-sharing, multiple-employer plan established and now administered by the CNMI. CPA also contributes to a defined contribution plan (DC Plan).

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. On September 11, 2012, Public Law 17-82 *CNMI Pension Reform Recovery Act of 2012* was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect to, to buy quarters of service in the U.S. Social Security system from contributions made to the DB Plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

On March 11, 2013, Public Law 18-02 was enacted to amend Public Law 17-82 to clarify those provisions necessary to expedite the refunds and to prevent any further frustration of the process. Included in the public law is the amendment of Section 203(a) of Title 1, Division 8, Part 3, which states that the government obligation to withhold and remit the employee's portion to the employee's defined account shall continue with respect to employees who do not terminate membership in the DB Plan. All but four active CPA employees voluntarily terminated membership in the DB Plan and CPA contributed \$43,263 and \$69,371 to the DB Plan during the years ended September 30, 2014 and 2013, respectively.

For the years ended September 30, 2014 and 2013, CPA contributed social security benefits of \$395,422 and \$406,670, respectively.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. CPA is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. CPA's recorded DC contributions for the years ended September 30, 2014, 2013 and 2012 were \$57,362, \$65,032 and \$66,275, respectively, equal to the required contributions for each year.

Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Net Position

CPA's net position is classified 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 position subject to externally imposed stipulations that CPA maintain them permanently. For the years ended September 30, 2014 and 2013, CPA does not have nonexpendable restricted net position.
 - Expendable - Net position 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 position that is not subject to externally imposed stipulations. Unrestricted net position 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.

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, 2014 and 2013 is \$546,628 and \$571,862, respectively.

Unearned Revenues

Unearned revenues arise when federal funds are received in excess of federal funds expended.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

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, financing and investing activities, Passenger Facility Charges and certain recurring income and costs.

Recovery of a Liability Due to a Related Party

Public Law 9-66 requires public corporations or other autonomous agencies to pay to the Commonwealth Treasurer an amount not less than one percent of total operation budgets, and such funds will be deposited into a special account of the CNMI general fund to be solely used for the operations and activities of the Office of the Public Auditor.

At September 30, 2014 and 2013, OPA recorded amounts due to the CNMI government related to the 1% Public Auditor fee totaling \$725,561 and \$2,073,592, respectively. This liability increases each fiscal year as mandated by Public Law 9-66 and has accumulated in excess of ten years without payment. Based on the advice from legal counsel, CPA applied the six year statute of limitations against the accumulated liability and recognized a recovery of \$1,475,196 during the year ended September 30, 2014.

New Accounting Standards

During the year ended September 30, 2014, CPA implemented the following pronouncements:

- GASB Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this statement did not have a material effect on the accompanying financial statements.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements September 30, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Statement 68 will require CPA to recognize a net pension liability based on the percentage of the actuarial present value of projected benefit payments allocated to CPA by the Northern Mariana Islands Settlement Fund (the Settlement Fund). The Settlement Fund has not communicated amounts to CPA which may be material and will be recorded on October 1, 2014. The implementation of this statement may have a material effect on the financial statements of CPA and may require a restatement disclosure upon implementation.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of this statement on the financial statements of CPA.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions in Statement 71 are effective for fiscal years beginning after June 15, 2014. 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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements September 30, 2014 and 2013

(3) Deposits and Investments, Continued

Deposits

As of September 30, 2014 and 2013, total cash was \$20,844,321 and \$12,464,858, respectively, and the corresponding bank balances were \$20,908,071 and \$12,625,529, respectively. All bank balances are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. 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:

	<u>2014</u>	<u>2013</u>
<u>Airport Division</u>		
Bond Reserve Fund	\$ 1,589,375	\$ 1,586,660
Bond Fund	428,720	411,190
Maintenance and Operation	1,908,612	1,282,857
Revenue Fund	724	724
Optional Redemption Fund	<u>12,101</u>	<u>12,100</u>
	<u>3,939,532</u>	<u>3,293,531</u>
<u>Seaport Division</u>		
Bond Reserve Fund	3,479,779	3,479,724
Supplemental Reserve Fund	8,034,239	8,034,239
Reimbursement Fund	5,809	5,807
Bond Fund	916,481	787,681
Maintenance and Operation	1,534,451	1,415,074
Construction Fund	7,179	7,178
Revenue Fund	811	811
	<u>13,978,749</u>	<u>13,730,514</u>
	<u>\$ 17,918,281</u>	<u>\$ 17,024,045</u>

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.

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, 2014 and 2013, there were no investments in any one issuer that exceeded 5% of total investments.

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Notes to Financial Statements September 30, 2014 and 2013

(3) Deposits and Investments, Continued

Investments, Continued

As of September 30, 2014 and 2013, investments at fair value consist of investments in U.S. Government money market placements and mutual funds.

(4) Receivables From Federal Grantor Agencies

Receivables from federal grantor agencies as of September 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
U.S. Department of Transportation	\$ 1,157,514	\$ 324,994
U.S. Department of Homeland Security	91,470	83,686
U.S. Department of the Interior - passed through from the CNMI Government	52,368	-
Other	<u>27,220</u>	<u>27,220</u>
	<u>\$ 1,328,572</u>	<u>\$ 435,900</u>

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. Capital contributions amounting to \$9,155,039 and \$14,743,092 and operating grants amounting to \$304,045 and \$475,003 were received from grantor agencies during the years ended September 30, 2014 and 2013, respectively.

(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, China and Korea. CPA's accounts receivable from operations as of September 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Accounts receivable	\$ 4,357,633	\$ 4,651,598
Less allowance for doubtful accounts	<u>(1,332,308)</u>	<u>(1,688,094)</u>
	<u>\$ 3,025,325</u>	<u>\$ 2,963,504</u>

(6) Capital Assets

Capital asset balances consist of the following as of September 30, 2014 and 2013:

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Notes to Financial Statements
September 30, 2014 and 2013

(6) Capital Assets, Continued

	Estimated Useful Lives	Balance October 1, 2013	Increases	Decreases	Balance September 30, 2014
Assets not being depreciated:					
Construction in progress		\$ 47,509,582	\$ 11,144,029	\$ (447,200)	\$ 58,206,411
Land		464,429	-	-	464,429
Total capital assets not being depreciated		<u>47,974,011</u>	<u>11,144,029</u>	<u>(447,200)</u>	<u>58,670,840</u>
Capital assets being depreciated:					
Runway and improvements	20 years	113,856,055	-	-	113,856,055
Other improvements	3 - 10 years	26,598,973	259,330	(286,706)	26,571,597
Terminal facilities	20 years	101,802,939	96,916	(211,564)	101,688,291
Terminal equipment	2 - 10 years	10,301,788	85,885	(854,555)	9,533,118
Harbor facilities	20 years	63,635,195	-	(33,773)	63,601,422
Grounds maintenance and shop equipment	2 - 5 years	388,189	-	(33,279)	354,910
Fire and rescue equipment	2 - 8 years	11,514,281	60,225	-	11,574,506
Office furniture and fixtures	2 - 10 years	1,178,857	256,631	(318,199)	1,117,289
General transportation	3 - 5 years	1,300,004	-	(24,991)	1,275,013
Other	3 - 5 years	2,614,419	131,917	(75,482)	2,670,854
		333,190,700	890,904	(1,838,549)	332,243,055
Less accumulated depreciation		(185,167,403)	(13,063,444)	1,788,805	(196,442,042)
Total capital assets being depreciated		<u>148,023,297</u>	<u>(12,172,540)</u>	<u>(49,744)</u>	<u>135,801,013</u>
Total capital assets, net		<u>\$ 195,997,308</u>	<u>\$ (1,028,511)</u>	<u>\$ (496,944)</u>	<u>\$ 194,471,853</u>
Assets not being depreciated:					
Construction in progress		\$ 37,263,775	\$ 17,531,016	\$ (7,285,209)	\$ 47,509,582
Land		464,429	-	-	464,429
Total capital assets not being depreciated		<u>37,728,204</u>	<u>17,531,016</u>	<u>(7,285,209)</u>	<u>47,974,011</u>
Capital assets being depreciated:					
Runway and improvements	20 years	113,833,981	22,074	-	113,856,055
Other improvements	3 - 10 years	26,567,586	31,387	-	26,598,973
Terminal facilities	20 years	94,509,828	7,297,396	(4,285)	101,802,939
Terminal equipment	2 - 10 years	10,763,111	122,707	(584,030)	10,301,788
Harbor facilities	20 years	63,635,195	-	-	63,635,195
Grounds maintenance and shop equipment	2 - 5 years	515,532	-	(127,343)	388,189
Fire and rescue equipment	2 - 8 years	11,527,325	-	(13,044)	11,514,281
Office furniture and fixtures	2 - 10 years	1,212,393	182,068	(215,604)	1,178,857
General transportation	3 - 5 years	1,149,924	313,656	(163,576)	1,300,004
Other	3 - 5 years	2,394,909	254,400	(34,890)	2,614,419
		326,109,784	8,223,688	(1,142,772)	333,190,700
Less accumulated depreciation		(173,706,178)	(12,598,802)	1,137,577	(185,167,403)
Total capital assets being depreciated		<u>152,403,606</u>	<u>(4,375,114)</u>	<u>(5,195)</u>	<u>148,023,297</u>
Total capital assets, net		<u>\$ 190,131,810</u>	<u>\$ 13,155,902</u>	<u>\$ (7,290,404)</u>	<u>\$ 195,997,308</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.

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.

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Notes to Financial Statements
September 30, 2014 and 2013

(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 and was fully 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, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2015 and 2028 are listed below.	\$ 12,860,000	\$ 13,425,000
Less current portion	<u>600,000</u>	<u>565,000</u>
Long-term portion	<u>\$ 12,260,000</u>	<u>\$ 12,860,000</u>

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.

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 600,000	\$ 785,000	\$ 1,385,000
2016	640,000	746,250	1,386,250
2017	675,000	705,156	1,380,156
2018	730,000	661,250	1,391,250
2019	765,000	614,531	1,379,531
2020 - 2024	4,605,000	2,268,595	6,873,595
2025 - 2028	<u>4,845,000</u>	<u>628,594</u>	<u>5,473,594</u>
	<u>\$ 12,860,000</u>	<u>\$ 6,409,376</u>	<u>\$ 19,269,376</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2014 and 2013

(7) Revenue Bonds Payable, Continued

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 is recorded as a deferred outflow from cost of refunding debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. At September 30, 2014 and 2013, deferred outflow from cost of refunding debt amounted to \$801,719 and \$837,150, respectively. 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.

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, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2015 and 2028 are listed below.	\$ 23,210,000	\$ 24,220,000
Special Revenue Bonds, tax exempt, 2005 Senior Series A: interest and annual installments payable to the Bond Trustee between 2015 and 2031 are listed below.	5,995,000	6,200,000
Discount on 2005 Senior Series A bonds	<u>(81,253)</u>	<u>(86,033)</u>
Less current portion	29,123,747	30,333,967
	<u>1,295,000</u>	<u>1,215,000</u>
Long-term portion	<u>\$ 27,828,747</u>	<u>\$ 29,118,967</u>

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.

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Notes to Financial Statements
September 30, 2014 and 2013

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,295,000	\$ 1,820,060	\$ 3,115,060
2016	1,370,000	1,734,590	3,104,590
2017	1,460,000	1,643,812	3,103,812
2018	1,555,000	1,547,095	3,102,095
2019	1,650,000	1,444,273	3,094,273
2020 - 2024	9,940,000	5,438,263	15,378,263
2025 - 2029	10,910,000	1,791,653	12,701,653
2030 - 2031	<u>1,025,000</u>	<u>57,062</u>	<u>1,082,062</u>
	\$ 29,205,000	\$ 15,476,808	\$ 44,681,808

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, 2014 and 2013, total deposits in the Seaport supplemental reserve fund amounted to \$8,034,239.

Bond Redemption

In accordance with the Airport and Seaport Bond Indenture Agreements, Section 4.01, terms of redemption of the 1998 Senior Series A Bonds are as follows:

- a) Optional redemption - The 1998 Senior Bonds for the airport 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%

The option may only be exercised by depositing with the Trustee, prior to giving notice of such redemption in accordance with Section 4.03, moneys or Investment Securities sufficient in amount and maturing in a timely manner to provide for such redemption including moneys or Investment Securities sufficient to pay the premium upon such optional redemption if any. CPA shall notify the Trustee in writing at least 60 days prior to the date to be fixed for redemption of its intention to exercise its redemption option and specifying the amount and the maturities of the bonds to be redeemed and, if appropriate, the Mandatory Sinking Accounts Payments to which the bonds redeemed are to be allocated.

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Notes to Financial Statements
September 30, 2014 and 2013

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

The 1998 Senior Bonds for the seaport are not subject to optional redemption prior to their stated maturity.

- b) Mandatory redemption - The 1998 Senior Bonds for the airport and seaport are subject to mandatory redemption, in part on the earliest Interest Payment Date for which notice can be given after completion of the Project or after three years from the date of issuance of the 1998 Senior Bonds, from moneys transferred from the 1998 Series A Account within the Construction Fund to the Optional Redemption Fund in accordance with Section 3.03, at a redemption price equal to 100% of the principal amount of such 1998 Senior Bonds to be redeemed plus accrued interest, if any, to the date fixed for redemption, without premium.
- c) Insurance or condemnation award - At the option of CPA, prior to their stated maturity as a whole or in part by lot, the 1998 Senior Bonds for the airport and seaport are subject to redemption from the proceeds of any insurance or condemnation awards received by CPA due to a casualty loss or governmental taking of CPA's airport and 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 at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.
- d) Mandatory sinking account - The 1998 Senior Bonds for the airport and seaport are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity upon payment of the principal amount thereof and accrued interest 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:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
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%

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Notes to Financial Statements
September 30, 2014 and 2013

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

- 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.
- 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, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.

Pledge of Future Revenues

CPA has pledged future gross revenues to repay \$20,050,000 and \$33,775,000 in 1998 Senior Series A and \$7,225,000 of 2005 Senior Series A tax-exempt special revenue bonds. Proceeds from the bonds provided financing for capital assets. The bonds are payable from pledged gross revenues. The bonds are payable through fiscal years 2028, 2028 and 2031, respectively. The total principal and interest payable for the remainder of the life of these bonds are \$63,951,184 and \$68,453,142 at September 30, 2014 and 2013, respectively. Pledged gross revenues received during the years ended September 30, 2014 and 2013 were \$21,059,862 and \$19,393,606, respectively. Debt service payments during the years ended September 30, 2014 and 2013 amounted to \$4,501,958 and \$4,506,857 representing 21% and 23%, respectively, of pledged gross revenues.

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, 2014. Section 6.11 of the Airport and Seaport Bond Indenture Agreements (Indenture) states that CPA shall impose, levy, enforce and collect such dockage, entry and wharfage fees, tariffs, lease rentals, licensing fees and other fees and charges in an aggregate amount with respect to each fiscal year to produce gross revenues of 125% of debt service requirements.

COMMONWEALTH PORTS AUTHORITY

**Notes to Financial Statements
September 30, 2014 and 2013**

(7) Revenue Bonds Payable, Continued

Management of CPA has determined that gross revenues consist of total operating revenues, other grant revenue and contributions, interest income and passenger facility charges to meet the indenture requirements. For fiscal years 2014 and 2013, management of CPA determined that 100% of passenger facility charges are considered as gross revenues for these purposes.

The Commonwealth Development Authority subordinated CPA's obligations under the 1992 Loan Agreement, to CPA's obligation on the Seaport bonds. Accordingly, principal and interest payments due during the fiscal year were excluded in the calculation of debt coverage ratio. Management of CPA has determined that Sections (A)(2) and (A)(3) of the Indenture apply to subsequent bond issuances and therefore does not apply at September 30, 2014 and 2013.

Changes in long-term liabilities for the years ended September 30, 2014 and 2013, are as follows:

	Balance October 1, 2013	Additions	Reductions	Balance September 30, 2014	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	\$ 13,425,000	\$ -	\$ (565,000)	\$ 12,860,000	\$ 600,000
Seaport 1998 Senior Series A	24,220,000	-	(1,010,000)	23,210,000	1,075,000
Seaport 2005 Senior Series A	6,200,000	-	(205,000)	5,995,000	220,000
Note payable	5,007,126	-	(249,687)	4,757,439	257,790
Deferred amounts:					
Discount on bonds	<u>(86,033)</u>	<u>-</u>	<u>4.780</u>	<u>(81,253)</u>	<u>-</u>
Other:					
Compensated absences	571,862	408,552	(433,786)	546,628	241,658
Accrued interest	<u>546,679</u>	<u>115,111</u>	<u>(115,111)</u>	<u>546,679</u>	<u>-</u>
	<u>\$ 49,884,634</u>	<u>\$ 523,663</u>	<u>\$ (2,573,804)</u>	<u>\$ 47,834,493</u>	<u>\$ 2,394,448</u>
	Balance October 1, 2012 <u>(As Restated)</u>	Additions	Reductions	Balance September 30, 2013	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	\$ 13,955,000	\$ -	\$ (530,000)	\$ 13,425,000	\$ 565,000
Seaport 1998 Senior Series A	25,170,000	-	(950,000)	24,220,000	1,010,000
Seaport 2005 Senior Series A	6,395,000	-	(195,000)	6,200,000	205,000
Note payable	5,251,438	-	(244,312)	5,007,126	251,387
Deferred amounts:					
Discount on bonds	<u>(90,813)</u>	<u>-</u>	<u>4.780</u>	<u>(86,033)</u>	<u>-</u>
Other:					
Compensated absences	597,237	420,542	(445,917)	571,862	250,247
Accrued interest	<u>546,679</u>	<u>116,628</u>	<u>(116,628)</u>	<u>546,679</u>	<u>-</u>
	<u>\$ 51,824,541</u>	<u>\$ 537,170</u>	<u>\$ (2,477,077)</u>	<u>\$ 49,884,634</u>	<u>\$ 2,281,634</u>

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Notes to Financial Statements
September 30, 2014 and 2013

(8) Note Payable to Related Party

CPA's note payable is as follows:

	<u>2014</u>	<u>2013</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 June 15, 2030. Principal and interest payments in the amount of \$31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling \$546,679 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first and, accordingly, is presented as long-term in the accompanying financial statements.	\$ 4,757,439	\$ 5,007,126
Less current portion	<u>257,790</u>	<u>251,387</u>
Long-term portion	<u>\$ 4,499,649</u>	<u>\$ 4,755,739</u>

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

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 257,790	\$ 115,910	\$ 373,700
2016	262,566	109,433	371,999
2017	269,206	102,794	372,000
2018	276,014	95,986	372,000
2019	282,994	89,006	372,000
2020 - 2024	1,526,007	333,992	1,859,999
2025 - 2029	1,728,967	131,033	1,860,000
2030 - 2031	<u>153,895</u>	<u>547,405</u>	<u>701,300</u>
	<u>\$ 4,757,439</u>	<u>\$ 1,525,559</u>	<u>\$ 6,282,998</u>

(9) Risk Management

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

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Notes to Financial Statements
September 30, 2014 and 2013

(10) Related Party Transactions

Total related party transactions for the years ended September 30, 2014 and 2013, and the related receivable and payable balances, are as follows:

	2014			
	<u>Revenues and Capital Contributions</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Commonwealth Utilities Corporation	\$ 211,571	\$ 1,047,522	\$ 506,769	\$ 482,487
CNMI Government	52,368	127,166	-	725,561
Commonwealth Development Authority	-	115,111	-	-
	<u>\$ 263,939</u>	<u>\$ 1,289,799</u>	<u>\$ 506,769</u>	<u>\$ 1,208,048</u>
	2013			
	<u>Revenues and Capital Contributions</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Commonwealth Utilities Corporation	\$ 211,571	\$ 2,023,708	\$ 445,912	\$ 321,287
CNMI Government	187,555	119,148	-	2,073,592
Commonwealth Development Authority	-	128,056	-	-
Northern Mariana Islands Retirement Fund	-	69,371	-	-
	<u>\$ 399,126</u>	<u>\$ 2,340,283</u>	<u>\$ 445,912</u>	<u>\$ 2,394,879</u>

A note payable to CDA amounted to \$4,757,439 and \$5,007,126 at September 30, 2014 and 2013, respectively. Interest expense on this note for the years ended September 30, 2014 and 2013 amounted to \$115,111 and \$128,056, respectively.

On June 30, 2008, CPA and the Commonwealth Utilities Corporation (CUC) entered into an amended and superseding MOA for the repayment of wharfage fees due to CPA amounting to \$3,385,131 with interest at 6.25%. In accordance with the MOA, CPA has the right to offset utility charges at the Port of Saipan and other ancillary accounts against the receivable from CUC beginning July 1, 2008. Total utility charges offset during the years ended September 30, 2014 and 2013 amounted to \$150,713 and \$123,663, respectively. Due to the potential uncollectability of the remaining amount due, the remaining receivable has been fully allowed for. At September 30, 2014 and 2013, interest receivable from CUC amounted to \$506,769 and \$445,912, respectively.

CPA recorded contributions of \$52,368 and \$187,555 from the CNMI government during the years ended September 30, 2014 and 2013, respectively. The amount due to the CNMI government relates to the 1% Public Auditor fee of \$725,561 and \$2,073,592 at September 30, 2014 and 2013, respectively. During the year ended September 30, 2014, CPA recognized a recovery related to the 1% Public Auditor fee (see note 2).

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements September 30, 2014 and 2013

(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 forty years and in most instances contain provisions for percentage rent. Concession and lease income for the years ended September 30, 2014 and 2013, amounted to \$6,686,714 and \$5,899,754, respectively. Minimum future lease income is as follows:

<u>Year ending September 30,</u>	<u>Minimum Lease Income Due</u>
2015	\$ 2,167,262
2016	1,613,982
2017	1,508,089
2018	1,436,364
2019	1,424,781
2020 - 2024	5,509,964
2025 - 2029	962,361
2030 - 2034	149,383
2035 - 2039	109,366
2040 - 2044	77,791
2045 - 2049	93,349
2050 - 2054	95,625
	\$ <u>15,148,317</u>

Contingencies

CPA incurred a combined loss before capital contributions from its two divisions of \$1,466,603 and \$5,065,962 during the years ended September 30, 2014 and 2013, 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.

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

In April 2012, a court order was issued by the CNMI Superior Court authorizing autonomous agencies to remit employer contributions of 30% of covered payroll to NMIRF. On September 30, 2013, the United States District Court for the Northern Mariana Islands approved a Settlement agreement in a Class Action Settlement (Settlement), between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, NMIRF and others. The Settlement includes the creation of the Settlement Fund to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court. Further, Section 8.1 of the Settlement assigns the CNMI the rights to collect deficient employer contributions and related costs as of August 6, 2013 from autonomous agencies.

CPA has taken the position that 30% is the correct rate and will challenge the matter in court if required to pay the deficient employer contributions. Accordingly, deficient employer contributions of \$1,048,784, inclusive of penalties totaling \$187,997, are not reflected in the accompanying financial statements at September 30, 2014 and 2013.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements September 30, 2014 and 2013

(11) Commitment and Contingencies

Contingencies, Continued

In accordance with 14 CFR Part 158.67(c), at least annually during the period the Passenger Facility Charge (PFC) is collected, held or used, each public agency shall provide for an audit of its PFC account. CPA has not finalized its PFC audits for fiscal years 2007 and 2008. In addition, the audits for fiscal years 2009 through 2014 are pending due to management's request to reconcile PFC projects approved to actual completed project costs. Reconciliation of the projects and completion of the audits is expected during fiscal year 2015. The effects of noncompliance with 14 CFR Part 158.67(c) cannot presently be determined, therefore, no provision for any liability that may result from this matter has been made in the accompanying financial statements.

CPA is involved in certain legal actions and claims that arise in the ordinary course of business. Management believes that, as a result of its legal defenses and insurance arrangements, none of these matters will have a material adverse effect on CPA's financial position, change in net position or cash flows.

(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, Russia, 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 who is located in the CNMI.

During the years ended September 30, 2014 and 2013, three customers accounted for 54% and 59%, respectively, of the total operating revenues of the Airport Division. Two customers accounted for 31% and 34% of the total operating revenues of the Seaport Division during the years ended September 30, 2014 and 2013, respectively.

(13) Typhoon Damages

During the year ended September 30, 2006, CPA received insurance proceeds relating to Typhoon Chaba damages. CPA recorded the proceeds as accrued expenses and expects to liquidate the accrual as typhoon repair costs are incurred. Management is currently unable to determine if it will proceed with the typhoon repairs and as a result, will perform a reassessment of its initial plans. The reassessment is expected to be completed in fiscal year 2015. At September 30, 2014 and 2013, the remaining accrued expenses totaled \$1,617,377, and accordingly, are included in accrued expenses in the accompanying financial statements. If the reassessment results in a determination that new construction will result and that repairs are unnecessary, this amount will be recognized as income in the year that determination occurs.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Net Position
September 30, 2014

<u>ASSETS AND DEFERRED OUTFLOWS</u>	Airport Division	Seaport Division	Elimination	Total
Current assets:				
Cash	\$ 16,417,977	\$ 4,426,344	\$ -	\$ 20,844,321
Receivables:				
Grantor agencies	1,328,572	-	-	1,328,572
Operations, net	2,453,158	572,167	-	3,025,325
Related party, net	-	506,769	-	506,769
Due from Seaport Division	56,137	-	(56,137)	-
Officers and employees	4,316	3,156	-	7,472
Prepaid expenses	173,287	91,146	-	264,433
Investments, restricted for debt service and other purposes	3,939,532	13,978,749	-	17,918,281
Total current assets	<u>24,372,979</u>	<u>19,578,331</u>	<u>(56,137)</u>	<u>43,895,173</u>
Capital assets, net	<u>158,245,669</u>	<u>36,226,184</u>	<u>-</u>	<u>194,471,853</u>
Deferred outflows from cost of refunding debt	<u>-</u>	<u>801,719</u>	<u>-</u>	<u>801,719</u>
Total assets and deferred outflows	<u>\$ 182,618,648</u>	<u>\$ 56,606,234</u>	<u>\$ (56,137)</u>	<u>\$ 239,168,745</u>
<u>LIABILITIES AND NET POSITION</u>				
Current liabilities:				
Revenue bonds payable, current portion	\$ 600,000	\$ 1,295,000	\$ -	\$ 1,895,000
Note payable to related party, current portion	-	257,790	-	257,790
Contractors payable	6,018,991	48,000	-	6,066,991
Trade and other payables	277,210	9,936	-	287,146
Due to related parties	1,070,415	137,633	-	1,208,048
Due to Airport Division	-	56,137	(56,137)	-
Accrued expenses	398,959	1,876,791	-	2,275,750
Unearned revenues	1,779,563	-	-	1,779,563
Compensated absences, current portion	216,109	25,549	-	241,658
Total current liabilities	<u>10,361,247</u>	<u>3,706,836</u>	<u>(56,137)</u>	<u>14,011,946</u>
Noncurrent liabilities:				
Accrued interest payable	-	546,679	-	546,679
Compensated absences, net of current portion	266,898	38,072	-	304,970
Revenue bonds payable, net of current portion	12,260,000	27,828,747	-	40,088,747
Note payable to related party, net of current portion	-	4,499,649	-	4,499,649
Total noncurrent liabilities	<u>12,526,898</u>	<u>32,913,147</u>	<u>-</u>	<u>45,440,045</u>
Total liabilities	<u>22,888,145</u>	<u>36,619,983</u>	<u>(56,137)</u>	<u>59,451,991</u>
Net position:				
Net investment in capital assets	145,385,669	3,146,717	-	148,532,386
Restricted	3,939,532	13,978,749	-	17,918,281
Unrestricted	10,405,302	2,860,785	-	13,266,087
Total net position	<u>159,730,503</u>	<u>19,986,251</u>	<u>-</u>	<u>179,716,754</u>
	<u>\$ 182,618,648</u>	<u>\$ 56,606,234</u>	<u>\$ (56,137)</u>	<u>\$ 239,168,745</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2014

	Airport Division	Seaport Division	Elimination	Total
Operating revenues:				
Aviation fees	\$ 7,415,707	\$ -	\$ -	\$ 7,415,707
Concession and lease income	5,527,008	1,159,706	-	6,686,714
Seaport fees	-	5,003,612	-	5,003,612
Other	<u>1,479,171</u>	<u>474,658</u>	<u>-</u>	<u>1,953,829</u>
	14,421,886	6,637,976	-	21,059,862
(Bad debts) recoveries	<u>(530,463)</u>	<u>137,666</u>	<u>-</u>	<u>(392,797)</u>
Operating revenues, net	<u>13,891,423</u>	<u>6,775,642</u>	<u>-</u>	<u>20,667,065</u>
Operating expenses:				
Depreciation and amortization	10,259,999	2,803,445	-	13,063,444
Salaries and wages	4,348,713	641,478	-	4,990,191
Insurance	693,115	439,132	-	1,132,247
Contractual services	909,055	156,726	-	1,065,781
Utilities	896,809	150,713	-	1,047,522
Employee benefits	530,699	77,316	-	608,015
Repairs and maintenance	514,611	30,337	-	544,948
Supplies	462,003	25,364	-	487,367
Professional fees	210,950	43,778	-	254,728
Travel	114,862	20,907	-	135,769
Promotion and advertising	39,273	-	-	39,273
Training	9,554	-	-	9,554
Other	<u>920,921</u>	<u>110,754</u>	<u>-</u>	<u>1,031,675</u>
Total operating expenses	<u>19,910,564</u>	<u>4,499,950</u>	<u>-</u>	<u>24,410,514</u>
Operating (loss) income	<u>(6,019,141)</u>	<u>2,275,692</u>	<u>-</u>	<u>(3,743,449)</u>
Non-operating revenues (expenses):				
Passenger facility charges	2,153,654	-	-	2,153,654
Recovery	1,278,476	196,720	-	1,475,196
Other income	593,880	-	-	593,880
Other grant revenues and contributions	246,727	57,318	-	304,045
Interest income	17,001	234,985	-	251,986
Interest expense	<u>(446,041)</u>	<u>(2,055,874)</u>	<u>-</u>	<u>(2,501,915)</u>
Total non-operating revenues (expenses), net	<u>3,843,697</u>	<u>(1,566,851)</u>	<u>-</u>	<u>2,276,846</u>
(Loss) income before capital contributions	<u>(2,175,444)</u>	<u>708,841</u>	<u>-</u>	<u>(1,466,603)</u>
Capital contributions	<u>8,993,096</u>	<u>161,943</u>	<u>-</u>	<u>9,155,039</u>
Change in net position	6,817,652	870,784	-	7,688,436
Net position at beginning of year	<u>152,912,851</u>	<u>19,115,467</u>	<u>-</u>	<u>172,028,318</u>
Net position at end of year	<u>\$ 159,730,503</u>	<u>\$ 19,986,251</u>	<u>\$ -</u>	<u>\$ 179,716,754</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2014

	Airport Division	Seaport Division	Elimination	Total
Cash flows from operating activities:				
Cash received from customers	\$ 15,658,575	\$ 6,547,363	\$ -	\$ 22,205,938
Cash payments to suppliers for goods and services	(4,302,336)	(823,948)	-	(5,126,284)
Cash payments to employees for services	(4,902,943)	(720,497)	-	(5,623,440)
Net cash provided by operating activities	<u>6,453,296</u>	<u>5,002,918</u>	<u>-</u>	<u>11,456,214</u>
Cash flows from noncapital financing activity:				
Other grant revenues and contributions	246,727	57,318	-	304,045
Net cash provided by noncapital financing activity	<u>246,727</u>	<u>57,318</u>	<u>-</u>	<u>304,045</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(8,528,811)	(352,880)	-	(8,881,691)
Capital and other contributions received	8,093,285	169,082	-	8,262,367
Proceeds from settlement of capital project	593,880	-	-	593,880
Passenger facility charge receipts	2,153,654	-	-	2,153,654
Principal paid on revenue bond maturities	(565,000)	(1,215,000)	-	(1,780,000)
Payments on note payable to related party	-	(249,687)	-	(249,687)
Interest paid on revenue bonds and note payable to related party	<u>(821,406)</u>	<u>(2,015,663)</u>	<u>-</u>	<u>(2,837,069)</u>
Net cash provided by (used for) capital and related financing activities	<u>925,602</u>	<u>(3,664,148)</u>	<u>-</u>	<u>(2,738,546)</u>
Cash flows from investing activities:				
Net investment purchases, restricted	(646,001)	(248,235)	-	(894,236)
Interest income	17,001	234,985	-	251,986
Net cash used for investing activities	<u>(629,000)</u>	<u>(13,250)</u>	<u>-</u>	<u>(642,250)</u>
Net change in cash	6,996,625	1,382,838	-	8,379,463
Cash at beginning of year	<u>9,421,352</u>	<u>3,043,506</u>	<u>-</u>	<u>12,464,858</u>
Cash at end of year	<u>\$ 16,417,977</u>	<u>\$ 4,426,344</u>	<u>\$ -</u>	<u>\$ 20,844,321</u>
Reconciliation of operating (loss) income to net cash provided by operating activities:				
Operating (loss) income	\$ (6,019,141)	\$ 2,275,692	\$ -	\$ (3,743,449)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation and amortization	10,259,999	2,803,445	-	13,063,444
Bad debts (recoveries)	530,463	(137,666)	-	392,797
Recovery	1,278,476	196,720	-	1,475,196
(Increase) decrease in assets:				
Receivables - operations	(424,888)	(29,730)	-	(454,618)
Interdivisional accounts	(42,474)	42,474	-	-
Receivables - officers and employees	4,534	(26)	-	4,508
Prepaid expenses	57,833	(18,046)	-	39,787
Receivables - related parties	-	(60,857)	-	(60,857)
Increase (decrease) in liabilities:				
Trade and other payables	103,507	(4,428)	-	99,079
Due to related parties	(1,008,803)	(178,028)	-	(1,186,831)
Accrued expenses	37,804	115,071	-	152,875
Unearned revenues	1,699,517	-	-	1,699,517
Compensated absences	(23,531)	(1,703)	-	(25,234)
Net cash provided by operating activities	<u>\$ 6,453,296</u>	<u>\$ 5,002,918</u>	<u>\$ -</u>	<u>\$ 11,456,214</u>

See Accompanying Independent Auditors' Report.