

*Financial Statements, Required Supplementary
Information, and Supplementary Information*

Commonwealth Ports Authority

(A Component Unit of the Commonwealth of the Northern
Mariana Islands)

*Year ended September 30, 2022
with Report of Independent Auditors*



Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Financial Statements, Required Supplementary Information,
and Supplementary Information

Year ended September 30, 2022

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Report of Independent Auditors

Board of Directors
Commonwealth Ports Authority

Qualified Opinion

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 statement of net position as of September 30, 2022, and the related notes to the financial statements, which collectively comprise CPA's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of CPA at September 30, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America h Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the CPA, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Matter Giving Rise to Qualified Opinion

The CPA's nondepreciable capital assets totaling \$53,455,565 as of September 30, 2022 includes approximately \$33 million costs of runway improvements. The runway improvements have been in use since 2016. Accounting principles generally accepted in the United States of America require that long-lived assets that are in use be depreciated over their estimated useful life. If the CPA had recorded depreciation, then total noncurrent assets would decrease by approximately \$10,100,000 as of September 30, 2022, net position at the beginning of October 1, 2021 would decrease by \$8,400,000 and depreciation expense and change in net position would increase and decrease by \$1,700,000, respectively, for the year ended September 30, 2022.

Management's Responsibility for the Financial Statements

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

Management's Responsibility for the Financial Statements, continued

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CPA's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CPA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CPA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

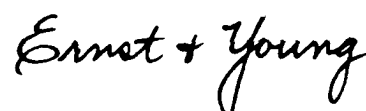
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 18 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise CPA's 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, 2022 (pages 42 through 44) are presented for purposes of additional analysis and are not required to be part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the 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 August 29, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CPA's 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.

The logo for Ernst + Young, featuring the company name in a stylized, cursive script font.

August 29, 2023



Commonwealth Ports Authority

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED SEPTEMBER 30, 2022

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, 2022, with selected comparative information for the fiscal year ended September 30, 2021. Please read it in conjunction with the detailed information contained within the accompanying financial statements.

INTRODUCTION

CPA is a component unit of the Government of the Commonwealth of the Northern Mariana Islands (CNMI) and was established as a public corporation on November 8, 1981 by CNMI Public Law 2-48. A seven-member Board of Directors appointed by the Governor to serve four-year terms governs 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 149 employees on Saipan, 24 employees on Rota and 27 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.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Management's Discussion and Analysis, continued

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 present 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 9% or \$25,733,257 from \$277,666,733 in FY2021 to \$303,399,990 in FY2022. Net position for the airport and seaport operations combined increased by 3% or \$6,288,910 from \$217,712,879 in FY2021 to \$224,001,789 in FY2022. Net position represents the amount that total assets exceed total liabilities.

Operating revenues for the airport and seaport operations combined increased by 45% or \$3,818,911 from 8,546,277 in FY2021 to \$12,365,188 in FY2022. Operating revenues for the Airport Division increased by 262% or \$3,448,373 from \$1,315,641 in FY2021 to \$4,764,014 in FY2022. Operating revenues for the Seaport Division increased by 5% or \$370,538 from 7,230,636 in FY2021 to \$7,601,174 in FY2022.

The Airport Division aviation revenue increased by \$1,038,324 due to the return of limited scheduled international flights and the implementation of a new rate methodology. The Airport Division was in compliance with its Bond Indenture for FY2022 and expects to be in compliance with the Agreement for FY2023.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Management's Discussion and Analysis, continued

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 FY2022, the Seaport Division seaport fees increased by \$168,343 due to a slight increase in revenue tonnage. The Seaport Division was in compliance with its 1998 and 2005 Bond Indenture Agreements (the Agreements) for FY2022. CPA expects the Seaport Division to be in compliance with the Agreement for FY2023.

Operating expenses (excluding depreciation and amortization) for the airport and seaport operations combined increased by 29% or \$4,233,018 from \$14,429,173 in FY2021 to \$18,662,191 in FY2022. The increase in operational expenses is due to the lifting of certain austerity measures through the assistance of federal grants.

Due to the implementation of GASB 87, CPA recorded lease receivable and related deferred inflow of resources for its lease agreements. These amounts were not required to be recorded in FY2021 and did not have an effect on beginning net position.

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, 2022 follow, with comparative information as of and for the year ended September 30, 2021:

Statements of Net Position	2022	2021
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	\$ 44,270,753	\$ 48,186,763
Receivables, net	8,125,345	3,674,448
Prepaid expenses	373,772	566,805
Lease receivable, current portion	1,263,809	---
Investments, restricted for debt service and other purposes	<u>48,158,600</u>	<u>50,359,829</u>
Total current assets	<u>102,192,279</u>	<u>102,787,845</u>
Lease receivable, net of current portion	22,791,830	---
Depreciable capital assets, net of accumulated depreciation and amortization	124,632,541	126,481,147
Nondepreciable capital assets	<u>53,455,565</u>	<u>48,000,349</u>
Total noncurrent assets	<u>200,879,936</u>	<u>174,481,496</u>
Deferred outflows of resources from cost of refunding debt	<u>327,775</u>	<u>397,392</u>
Total assets and deferred outflows of resources	<u>\$303,399,990</u>	<u>\$277,666,733</u>

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Management's Discussion and Analysis, continued

FINANCIAL HIGHLIGHTS, continued

Statements of Net Position, continued

	2022	2021
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities:		
Revenue bonds payable, current portion	\$ 3,080,000	\$ 2,900,000
Contractors payable	7,093,447	3,901,265
Trade and other payables	1,160,044	64,408
Due to related parties	2,741,085	4,527,162
Accrued expenses	820,152	1,173,381
Unearned revenues	---	3,529,281
Compensated absences, current portion	<u>315,783</u>	<u>309,536</u>
Total current liabilities	<u>15,210,511</u>	<u>16,405,033</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	376,071	461,143
Revenue bonds payable, net of current portion	19,978,302	23,058,306
Unearned revenues, net of current portion	<u>---</u>	<u>20,029,372</u>
Total noncurrent liabilities	<u>20,354,373</u>	<u>43,548,821</u>
Deferred inflows of resources from leases	<u>43,833,317</u>	<u>---</u>
Total liabilities and deferred inflow of resources	<u>79,398,201</u>	<u>59,953,854</u>
Net position:		
Net investment in capital assets	155,357,579	148,920,586
Restricted	48,158,600	50,359,829
Unrestricted	<u>20,485,610</u>	<u>18,432,464</u>
Total net position	<u>224,001,789</u>	<u>217,712,879</u>
Total liabilities, deferred inflow of resources and net position	<u>\$303,399,990</u>	<u>\$277,666,733</u>

Statements of Revenues, Expenses and Changes in Net Position

	2022	2021
Operating revenues:		
Aviation fees	\$ 1,212,891	\$ 174,567
Seaport fees	5,119,141	4,950,798
Concession and lease income	4,348,362	2,579,104
Other	<u>1,684,794</u>	<u>841,808</u>
	12,365,188	8,546,277
Bad debts	<u>(360,873)</u>	<u>(94,709)</u>
Operating revenues, net	<u>12,004,315</u>	<u>8,451,568</u>

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Management's Discussion and Analysis, continued

FINANCIAL HIGHLIGHTS, continued

Statements of Revenues, Expenses and Changes in Net Position, continued

	2022	2021
Operating expenses:		
Depreciation and amortization	13,933,852	13,413,176
Salaries and wages	7,322,354	5,190,876
Insurance	3,523,174	2,844,427
Utilities	3,061,682	1,979,327
Employee benefits	1,338,445	1,278,398
Contractual services	926,928	1,163,492
Repairs and maintenance	622,881	550,907
Supplies	577,162	410,957
Other	541,319	420,943
Professional fees	297,554	163,687
Fuel	207,265	91,308
Travel	166,009	56,838
Promotion and advertising	77,266	28,078
Penalties and interest	<u>152</u>	<u>249,935</u>
Total operating expenses	<u>32,596,043</u>	<u>27,842,349</u>
Operating loss	<u>(20,591,728)</u>	<u>(19,390,781)</u>
Nonoperating revenues (expenses):		
Other grant and revenue contributions	14,056,386	10,733,674
Other nonoperating revenue	2,325,954	---
Interest on leases	359,007	---
Interest income	243,228	31,079
Water utility charges offset	62,665	33,939
Insurance proceeds	---	11,133,897
Passenger facility charges	---	235,150
Loss on disposal of equipment	(348,906)	(141,302)
Typhoon-related damages	(1,062,873)	(1,427,353)
Other nonoperating expense	(1,306,848)	---
Interest expense	<u>(1,622,186)</u>	<u>(1,690,437)</u>
Total nonoperating revenues, net	<u>12,706,427</u>	<u>18,908,647</u>
Loss before capital contributions	<u>(7,885,301)</u>	<u>(482,134)</u>
Capital contributions	<u>14,174,211</u>	<u>5,894,099</u>
Changes in net position	6,288,910	5,411,965
Net position at beginning of year	<u>217,712,879</u>	<u>212,300,914</u>
Net position at end of year	<u>\$224,001,789</u>	<u>\$217,712,879</u>

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Management's Discussion and Analysis, continued

FINANCIAL HIGHLIGHTS, continued

	Statements of Cash Flows	2022	2021
Cash flows from operating activities:			
Cash received from customers		\$10,175,364	\$10,649,888
Cash payments to suppliers for goods and services		(12,038,853)	(10,280,388)
Cash payments to employees for services		<u>(8,739,624)</u>	<u>(6,474,497)</u>
Net cash used for operating activities		<u>(10,603,113)</u>	<u>(6,104,997)</u>
Cash flows from investing activities:			
Net investment liquidations (purchases), restricted		2,201,229	(12,426,353)
Interest income		<u>325,537</u>	<u>31,079</u>
Net cash provided by (used for) investing activities		<u>2,526,766</u>	<u>(12,395,274)</u>
Cash flows from noncapital financing activity:			
Other grant revenues and contributions		<u>14,056,386</u>	<u>10,733,674</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets		(14,348,280)	(10,183,549)
Capital contributions, net		8,842,135	8,182,986
Water utility charges offset		62,665	---
Insurance proceeds		---	11,133,897
Passenger facility charge receipts		---	235,150
Principal paid on revenue bond maturities		(2,900,000)	(2,730,000)
Interest paid on revenue bonds and notes payable to a related party		<u>(1,552,569)</u>	<u>(1,731,801)</u>
Net cash (used for) provided by capital and related financing activities		<u>(9,896,049)</u>	<u>4,906,683</u>
Net change in cash		(3,916,010)	(2,859,914)
Cash and cash equivalents at beginning of year		<u>48,186,763</u>	<u>51,046,677</u>
Cash and cash equivalents at end of year		<u>\$44,270,753</u>	<u>\$48,186,763</u>

CAPITAL ASSETS

At September 30, 2022, CPA had \$178,088,106 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 increase of \$3,606,610 or 2% from the last fiscal year.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Management's Discussion and Analysis, continued

CAPITAL ASSETS, continued

	2022	2021
Runway and improvements	\$122,229,827	\$123,452,740
Other improvements	26,298,642	28,408,628
Terminal facilities and equipment	121,664,040	124,713,459
Harbor facilities	64,373,203	64,029,877
Grounds maintenance and shop equipment	1,556,928	1,856,589
Fire and rescue equipment	35,040,666	34,959,651
Office furniture and fixtures	3,678,345	3,984,991
General transportation	1,240,953	1,251,905
Other	<u>2,143,066</u>	<u>2,739,514</u>
	378,225,670	385,397,354
Less accumulated depreciation	<u>(253,593,129)</u>	<u>(258,916,207)</u>
Total capital assets being depreciated	124,632,541	126,481,147
Construction in progress	52,991,136	47,535,920
Land	<u>464,429</u>	<u>464,429</u>
Total capital assets, net	<u>\$178,088,106</u>	<u>\$174,481,496</u>

Please refer to note 5 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, 2022 and 2021 and are as follows:

	2022	2021
Airport		
Bond Reserve Fund	\$ 1,692,612	\$ 1,685,184
Bond Fund	645,046	615,782
Maintenance and Operation	6,867,138	7,906,457
Revenue Fund	757	754
Optional Redemption Fund	12,644	12,603
Insurance & Condemnation Proceeds Fund - Yutu	20,890,322	21,398,922
Insurance & Condemnation Proceeds Fund - Mangkhut	<u>1,718,452</u>	<u>1,712,823</u>
	<u>31,826,971</u>	<u>33,332,525</u>

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Management's Discussion and Analysis, continued

RESTRICTED INVESTMENTS, continued

	2022	2021
Seaport		
Bond Reserve Fund	3,483,639	3,514,313
Supplemental Reserve Fund	7,935,483	8,024,194
Reimbursement Fund	6,069	6,049
Bond Fund	1,382,862	1,316,207
Maintenance and Operation	3,515,228	4,158,220
Construction Fund	7,501	7,476
Reserve Fund	<u>847</u>	<u>845</u>
	<u>16,331,629</u>	<u>17,027,304</u>
 Total	 <u>\$48,158,600</u>	 <u>\$50,359,829</u>

Please refer to note 2 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 \$975,000. The long-term portion of the bond balance as of September 30, 2022 is \$5,880,000.

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.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Management's Discussion and Analysis, continued

LONG-TERM DEBT, continued

1998 Seaport Revenue Bonds, continued

Payments for the 1998 Seaport bond are current. The current portion of the 1998 Seaport bond principal is \$1,765,000. The long-term portion of the bond balance as of September 30, 2022 is \$10,660,000.

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 \$340,000. The long-term portion of the bond balance as of September 30, 2022 is \$3,510,000.

A summary of CPA's long term debt balances as of September 30, 2022 and 2021 is as follows:

	2022	2021
1998 Senior Series A Bonds - Airport	\$ 6,855,000	\$ 7,775,000
1998 Senior Series A Bonds - Seaport	\$12,425,000	\$14,085,000
2005 Senior Series A Bonds - Seaport	\$ 3,850,000	\$ 4,170,000

Please refer to note 6 to the financial statements for additional information regarding CPA's long-term debt.

Commonwealth Ports Authority
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Management’s Discussion and Analysis, continued

REVENUE AND EXPENSE ANALYSIS

	Airport and Seaport Combined Operating Revenues	
	2022	2021
Airport	\$ 4,764,014	\$1,315,641
Seaport	<u>7,601,174</u>	<u>7,230,636</u>
	<u>\$12,365,188</u>	<u>\$8,546,277</u>

The Airport Division operating revenues increased by 262% in FY2022 as compared to FY2021. The increase was due to the return to operations of limited international flights and implementation of a new rate methodology. The Seaport Division operating revenues increased by 5% as compared to FY2021. The increase was due to a slight increase in inbound revenue tonnage.

The CPA Board of Directors adopted a new compensatory rate methodology for Airports that took effect on October 1, 2021. The compensatory rate setting methodology includes the following key elements:

- A “cost center compensatory” landing fee rate for the Airfield Cost Center using total landed weight as the divisor.
- A “cost center compensatory” average terminal rental rate for the Terminal Cost Center using the total leased square feet as the divisor.
- Cost centers have been developed that are consistent with industry practices.

Additionally, an increase to the tariff for the Seaports was approved and implemented in March 2009. The new rate methodology and Seaport increase in fees had a major impact on stabilizing each Division’s revenues and allowing for future revenue growth.

	Airport and Seaport Combined Operating Expenses	
	2022	2021
Airport		
Personnel expense	\$ 7,059,367	\$ 5,291,871
Maintenance and operations expense	<u>7,706,695</u>	<u>6,295,959</u>
	<u>14,766,062</u>	<u>11,587,830</u>
Seaport		
Personnel expense	1,601,432	1,177,403
Maintenance and operations expense	<u>2,294,697</u>	<u>1,663,940</u>
	<u>3,896,129</u>	<u>2,841,343</u>
Combined operating expenses	<u>\$18,662,191</u>	<u>\$14,429,173</u>

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Management's Discussion and Analysis, continued

FY 2022 BOND INDENTURE COMPLIANCE

FY2022 Bond/Debt Ratio Compliance

	<u>Airport</u>		<u>Seaport</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Required revenues for bond compliance	<u>\$16,488,524</u>	<u>\$13,310,291</u>	<u>\$7,740,354</u>	<u>\$6,695,767</u>
Actual revenues collected:				
Revenues and other income	7,200,631	1,315,641	7,912,183	7,230,636
Insurance proceeds	---	11,133,897	---	---
Other grant revenue and contributions	13,910,209	10,733,674	146,177	---
Interest income	142,863	13,890	100,365	17,189
Passenger facility charge	<u>---</u>	<u>235,150</u>	<u>---</u>	<u>---</u>
	<u>21,253,703</u>	<u>23,432,252</u>	<u>8,158,725</u>	<u>7,247,825</u>
Variance (noncompliance)	<u>\$ 4,765,179</u>	<u>\$10,121,961</u>	<u>\$ 418,371</u>	<u>\$ 552,058</u>

As illustrated in the above table, for FY2022 and FY2021, 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 and the inclusion of insurance settlement proceeds and operating grant reimbursements in the bond indenture definition of gross revenues. As stated previously, revenues and expenses are being monitored on a monthly basis so that steps can be taken to ensure compliance. The results from this activity were used to construct a realistic budget for FY2023. 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 International and Commuter			
FY 2020	265,675	232,230	372,886,229
FY 2021	47,576	15,928	99,080,340
FY 2022	131,215	95,664	200,057,890
Rota			
FY 2020	6,945	No data	20,729,624
FY 2021	9,933	No data	22,323,158
FY 2022	10,406	No data	24,346,520

Commonwealth Ports Authority
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Management's Discussion and Analysis, continued

REVENUE-BASED STATISTICS, continued

AIRPORT DIVISION, continued

	Enplaned Passengers	Deplaned Passengers	Landing Weights
Tinian			
FY 2020	21,464	No data	30,910,024
FY 2021	20,333	No data	26,946,492
FY 2022	26,958	No data	35,812,720
All Airports			
FY 2020	294,084	232,230	424,525,877
FY 2021	77,842	15,928	148,349,990
FY 2022	168,579	95,664	260,217,130

In FY2022, consolidated airport enplanements (air passenger departures) increased by 117% and consolidated deplanements (air passenger arrivals) increased by 501% from FY 2021. These increases are due to the return of limited scheduled flights for international carriers operating the CNMI – Korea route. Although international flight operations have increased significantly as compared to FY 2021, activity has not reached pre-pandemic levels. As of September 2022, international airline enplanements at the Francisco C. Ada/Saipan International Airport were at 21% of pre-pandemic activity. In addition, two international air carriers ceased operations at the Francisco C. Ada/Saipan International Airport in FY 2022.

SEAPORT DIVISION

	Revenue Tons		Total
	Inbound	Outbound	
Saipan			
FY 2020	403,997	15,842	419,839
FY 2021	379,902	14,835	394,737
FY 2022	406,226	14,580	420,806
Rota			
FY 2020	8,535	627	9,162
FY 2021	10,237	614	10,851
FY 2022	8,600	512	9,112

Commonwealth Ports Authority
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Management’s Discussion and Analysis, continued

REVENUE-BASED STATISTICS, continued

SEAPORT DIVISION, continued

	<u>Revenue Tons</u>		Total
	Inbound	Outbound	
Tinian			
FY 2020	20,786	2,011	22,797
FY 2021	19,303	2,457	21,760
FY 2022	22,981	1,958	24,939
All Seaports			
FY 2020	433,318	18,480	451,798
FY 2021	409,442	17,906	427,348
FY 2022	437,807	17,050	454,857

In FY2022, seaport inbound cargo increased by 7% and outbound cargo decreased by 5% for the three seaports combined from FY2021.

ECONOMIC OUTLOOK

The COVID-19 pandemic continues to have a negative effect on international passenger traffic. International air traffic activity has decreased significantly as compared to pre-pandemic levels. International flights were suspended indefinitely effective February 2020 and operations have not recovered to pre-COVID activity since then. As of July 2023, four airlines are operating out of the Francisco C. Ada/Saipan International Airport. Three airlines are servicing the Korea-CNMI route and one airline services the Japan-CNMI route and Guam-CNMI route. One air carrier operates out of the Saipan commuter, Tinian and Rota airports providing interisland passenger and cargo services in the CNMI. One air carrier provides interisland cargo services in the CNMI.

CPA was able to fund its airport operations and debt service requirements mainly due to the receipt of a CARES Act grant from the Federal Aviation Administration (FAA). The grant was awarded in May 2020 in the amount of \$22,759,818. In addition, CPA has been awarded grants under CRRSA in the consolidated amount of \$5,690,792 and grants under ARPA in the consolidated amount of \$8,558,676. These grants have four-year performance periods and are available at a 100% federal share. These funds can be used for any purpose which airport revenues may be lawfully used.

The Seaport gross revenue tons for 2023 is forecasted to remain steady, as essential goods account for majority of imports. Management will continue to closely monitor the Airport and Seaport operating expenses in order to maintain a level to comply with the respective Bond Indentures.

Commonwealth Ports Authority
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Management's Discussion and Analysis, continued

ECONOMIC OUTLOOK, continued

Management's Discussion and Analysis for the year ended September 30, 2021 is set forth in CPA's report on the audit of financial statements, which is dated July 22, 2022. That Discussion and Analysis explains the major factors impacting the 2021 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 Mrs. Skye Lynn L. Aldan Hofschneider, Comptroller, P.O. Box 501055, Saipan, MP 96950-1055, or call (670) 237-6500 or email at skye.hofschneider@cnmiports.com.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Statement of Net Position

September 30, 2022

Assets and Deferred Outflows of Resources

Current assets:	
Cash and cash equivalents	\$ 44,270,753
Receivables, net:	
Grantor agencies	7,131,098
Operations, net	987,248
Officers and employees	6,999
Prepaid expenses	373,772
Lease receivable, current portion	1,263,809
Investments, restricted	<u>48,158,600</u>
Total current assets	<u>102,192,279</u>
Lease receivable, net of current portion	22,791,830
Depreciable capital assets, net of accumulated depreciation and amortization	124,632,541
Nondepreciable capital assets	<u>53,455,565</u>
Total noncurrent assets	<u>200,879,936</u>
Deferred outflows of resources from cost of refunding debt	<u>327,775</u>
Total assets and deferred outflows of resources	<u>\$303,399,990</u>

Liabilities, Deferred Inflows of Resources and Net Position

Current liabilities:	
Revenue bonds payable, current portion	\$ 3,080,000
Contractors payable	7,093,447
Trade and other payables	1,160,044
Due to related parties	2,741,085
Accrued expenses	820,152
Compensated absences, current portion	<u>315,783</u>
Total current liabilities	<u>15,210,511</u>
Compensated absences, net of current portion	376,071
Revenue bonds, net of current portion	<u>19,978,302</u>
Total noncurrent liabilities	<u>20,354,373</u>
Deferred inflows of resources from leases	<u>43,833,317</u>
Total liabilities and deferred inflows of resources	<u>79,398,201</u>
Net position	
Net investment in capital assets	155,357,579
Restricted-debt service and other purposes	48,158,600
Unrestricted	<u>20,485,610</u>
Total net position	<u>224,001,789</u>
Total liabilities, deferred inflows of resources and net position	<u>\$303,399,990</u>

See accompanying notes.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Statements of Revenues, Expenses and Change in Net Position

Year ended September 30, 2022

Operating revenues:	
Seaport fees	\$ 5,119,141
Concession and lease income	4,348,362
Aviation fees	1,212,891
Other revenues	1,684,794
Bad debts	(360,873)
Total operating revenues, net	<u>12,004,315</u>
Operating expenses:	
Depreciation and amortization	13,933,852
Salaries and wages	7,322,354
Insurance	3,523,174
Utilities	3,061,682
Employee benefits	1,338,445
Contractual services	926,928
Repair and maintenance	622,881
Supplies	577,162
Miscellaneous	541,319
Professional fees	297,554
Fuel	207,265
Travel	166,009
Promotion and advertising	77,266
Penalties and interest	<u>152</u>
Total operating expenses	<u>32,596,043</u>
Operating loss	<u>(20,591,728)</u>
Nonoperating income (expense):	
Other grant revenues and contributions	14,056,386
Other nonoperating revenue	2,325,954
Interest on leases	359,007
Interest income	243,228
Water utility charges offset	62,665
Loss on disposal of equipment	(348,906)
Typhoon-related damages	(1,062,873)
Other nonoperating expense	(1,306,848)
Interest expense	<u>(1,622,186)</u>
Total nonoperating income, net	<u>12,706,427</u>
Loss before capital contributions	<u>(7,885,301)</u>
Capital contributions	<u>14,174,211</u>
Change in net position	6,288,910
Net position at beginning of year	<u>217,712,879</u>
Net position at end of year	<u>\$224,001,789</u>

See accompanying notes.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Statement of Cash Flows

Year ended September 30, 2022

Cash flows from operating activities:	
Received from customers	\$ 10,175,364
Suppliers for goods and services	(12,038,853)
Payments to employees for services	<u>(8,739,624)</u>
Net cash used for operating activities	<u>(10,603,113)</u>
Cash flows from investing activities:	
Net investment liquidation, restricted	2,201,229
Interest income	<u>325,537</u>
Cash provided by for investing activities	<u>2,526,766</u>
Cash flows from noncapital financing activity:	
Other grant revenues and contributions	<u>14,056,386</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(14,348,280)
Capital contributions, net	8,842,135
Water utility charges offset	62,665
Principal paid on revenue bond maturities	(2,900,000)
Interest paid on revenue bonds and note payable to a related party	<u>(1,552,569)</u>
Net cash used for capital and related financing activities	<u>(9,896,049)</u>
Net change in cash	(3,916,010)
Cash and cash equivalents at beginning of year	<u>48,186,763</u>
Cash and cash equivalents at end of the year	\$ <u>44,270,753</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$(20,591,728)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation and amortization	13,933,852
Loss on disposal of fixed assets	(348,906)
Typhoon-related damages	(1,062,873)
Bad debts	360,873
(Increase) decrease in assets:	
Receivables - operations	(781,181)
Receivables - officers and employees	(5,361)
Prepaid expenses	193,033
Increase (decrease) in liabilities:	
Trade and other payables	1,095,636
Due to related parties	(2,563,123)
Accrued expenses	(353,229)
Unearned revenue	(401,281)
Compensated absences	<u>(78,825)</u>
Net cash used for operating activities	\$(<u>10,603,113</u>)

See accompanying notes.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements

Year ended September 30, 2022

1. Summary of Significant Accounting Policies

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.

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 statement 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 and receivables.

At September 30, 2022, 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, 2022, concentrations of credit risk result from receivables from significant customers which represent 75% of total receivables. Management assesses the risk of loss and provides an allowance for doubtful accounts to compensate for known credit risk.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, savings and short-term money market deposits with federally insured institutions. Short-term investment accounts established and set aside for construction and debt service purposes are separately classified as investments in the accompanying financial statements. CPA has elected to record these investments as current as they may satisfy its debt service requirements at any time.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Investments

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.

Accounts Receivable

Accounts receivable are primarily due from customers utilizing CPA's airport and seaport terminal facilities and various business establishments located in the CNMI. CPA performs periodic credit evaluations of its customers, and generally does not require collateral. Receivables are considered past due when payment is not received within 90 days from the date of billing. Receivables are stated net of estimated allowances 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 and Depreciation and Amortization

Capital assets are recorded at historical cost. Depreciation is computed by using the straight-line method over the estimated useful lives of the assets ranging from 2 to 10 years for equipment and 20 years for runway, terminal and harbor facilities. 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.

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 non-operating income in the statement of revenues, expenses and changes in net position. Air carriers collect PFC's from passengers on behalf of CPA at the time of air travel ticket issuance. The air carriers are responsible for all PFC funds from the time of collection to remittance to CPA. In addition, the air carriers must provide quarterly reports to CPA showing the total amounts of PFC revenues collected and refunded, as well as any amounts withheld by the air carrier as collection compensation. The completeness of the PFC receipts reflected in the quarterly schedule is the responsibility of the air carrier.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Retirement Plan

CPA contributed to the Northern Mariana Islands Retirement Fund's (NMIRF) defined benefit plan (DB Plan), a single-employer plan established and now administered by the CNMI. On September 30, 2013, the DB Plan was transferred to the Northern Mariana Islands Settlement Fund (NMISF).

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 two active CPA employees voluntarily terminated membership in the DB Plan and CPA contributed \$29,524 to the DB Plan during the year ended September 30, 2022.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a single-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 year ended September 30, 2022 were \$91,129 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.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Net Position

CPA's net position is classified as follows:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus deferred outflows from cost of refunding debt, 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 year ended September 30, 2022, 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. At September 30, 2022, the accumulated vacation leave liability amounted to \$691,854.

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses generally result directly from the operation and maintenance of all airports and seaports within the CNMI. Nonoperating revenues and expenses result from capital, financing and investing activities, PFCs and certain nonrecurring income and costs.

Due to 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 CNMI Office of the Public Auditor (OPA).

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. As of September 30, 2022, CPA reports deferred outflows of resources arising from cost of refunding of debt.

In addition to liabilities, the Statement of Net Position, CPA reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period and thus, will not be recognized as an inflow of resources until then.

CPA has recorded deferred inflows of resources related to \$21,900,000 received from the U.S. Department of Defense on May 9, 2019 for a 40-year lease of the Tinian divert airfield. CPA has elected to recognize lease revenue over the term of the lease and recorded \$547,500 for the year ended September 30, 2022. The related deferred inflows amounting to \$20,029,375 as of September 30, 2022 has been recorded as a component of deferred inflows of resources from leases in the accompanying statement of net position.

Additionally, CPA has recorded \$24,055,639 deferred inflows of resources on October 1, 2021 arising from the adoption of GASB 87, *Leases*. As of September 30, 2022, the deferred inflows of resources from the adoption of new lease standard amounted to \$23,803,942.

GASB Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* which revised and established new financial reporting requirements for most governments that provide their employees with pension benefits through plans that are administered through trusts.

CPA has estimated that the effects of GASB 68 would not have a material impact to its financial statements.

Recently Adopted Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. The adoption of GASB Statement No. 87 did not have an effect on beginning net position. At October 1, 2021, CPA recorded lease receivable and related deferred inflow of resources of \$24,055,639 for its lease agreements as a lessor.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; applicability of Statement no. 73 and 84 for postemployment benefits, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The adoption of GASB Statement No. 92 did not have an effect on CPA's financial statements.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR) – most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either (a) changing the reference rate or (b) adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address the accounting and financial reporting effects that result from the replacement of IBORs with other reference rates in order to preserve the reliability, consistency, and comparability of reported information. The adoption of GASB Statement No. 93 did not have an effect on CPA's financial statements.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans*. The primary objectives of this Statement are to (a) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (b) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (c) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The adoption of GASB Statement No. 97 did not have an effect on CPA's financial statements.

Commonwealth Ports Authority
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Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

Commonwealth Ports Authority
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Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.
- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.
- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issues Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

Commonwealth Ports Authority
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Notes to Financial Statements, continued

1. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

CPA is currently evaluating the effects the above upcoming accounting pronouncements might have on its financial statements.

Estimates

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

Subsequent Events

CPA has evaluated subsequent events through August 29, 2023, which is also the date the financial statements were available to be issued.

2. Deposit and Investments

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

Deposits

As of September 30, 2022, total cash and cash equivalents amounted to \$44,270,753 and the corresponding bank balance amounted to \$44,686,277. 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.

Commonwealth Ports Authority
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Notes to Financial Statements, continued

2. Deposit and Investments, continued

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 have the following balances as of September 30, 2022:

<u>Airport Division</u>	
Bond Reserve Fund	\$ 1,692,612
Bond Fund	645,046
Maintenance and Operation	6,867,138
Revenue Fund	757
Optional Redemption Fund	12,644
Insurance and Condemnation Proceeds Fund - Yutu	20,890,322
Insurance and Condemnation Proceeds Fund - Mangkhut	<u>1,718,452</u>
	<u>31,826,971</u>
 <u>Seaport Division</u>	
Bond Reserve Fund	3,483,639
Supplemental Reserve Fund	7,935,483
Reimbursement Fund	6,069
Bond Fund	1,382,862
Maintenance and Operation	3,515,228
Construction Fund	7,501
Revenue Fund	<u>847</u>
	<u>16,331,629</u>
	<u>\$48,158,600</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, 2022, there were no investments in any one issuer that exceeded 5% of total investments.

Commonwealth Ports Authority
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Notes to Financial Statements, continued

2. Deposit and Investments, continued

As of September 30, 2022, investments at fair value consist of investments in U.S. government money market placements and mutual funds.

Fair Value Measurement of the Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

CPA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The following table set forth by fair value hierarchy level the CPA's assets carried at fair value as of September 30, 2022:

	Level 1	Level 2		Level 3
Investments by fair value level				
Equity securities:				
Mutual funds	\$ 12,539,659	\$ 12,539,659	\$ ---	\$ ---
Money market mutual funds - Fidelity Investments	<u>35,618,941</u>	<u>35,618,941</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	<u>\$ 48,158,600</u>	<u>\$ 48,158,600</u>	<u>\$ ---</u>	<u>\$ ---</u>

3. Receivables from Federal Grantor Agencies

Receivables from federal grantor agencies as of September 30, 2022 are as follows:

U.S. Department of Transportation	\$1,642,692
U.S. Department of Homeland Security	<u>6,795,254</u>
	8,437,946
Less allowance for doubtful accounts	<u>(1,306,848)</u>
	<u>\$7,131,098</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 75% to 100%, with the remainder of project costs, if any, funded by CPA or other sources. Capital contributions amounting to \$14,174,211 and operating grants amounting to \$14,056,386 were received from grantor agencies during the year ended September 30, 2022.

Commonwealth Ports Authority
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Notes to Financial Statements, continued

4. 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, 2022 are as follows:

Accounts receivable	\$7,152,983
Less allowance for doubtful accounts	<u>(6,165,735)</u>
	<u>\$ 987,248</u>

5. Capital Assets

Capital asset balances consist of the following as of September 30, 2022:

	Balance October <u>1, 2021</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	Balance September <u>30, 2022</u>
Depreciable capital assets:					
Runway and improvements	\$123,452,745	\$ ---	\$ 6,811,859	\$(8,034,777)	\$122,229,827
Other improvements	28,408,627	30,673	900,817	(3,041,475)	26,298,642
Terminal facilities	116,959,252	---	2,510,034	(4,884,651)	114,584,635
Terminal equipment	7,754,211	---	---	(674,806)	7,079,405
Harbor facilities	64,029,877	---	541,673	(198,347)	64,373,203
Grounds maintenance and shop equipment	1,856,588	188,518	---	(488,178)	1,556,928
Fire and rescue equipment	34,959,651	12,000	125,409	(56,394)	35,040,666
Office furniture and fixtures	3,984,991	113,517	---	(420,163)	3,678,345
General transportation	1,251,903	---	---	(10,950)	1,240,953
Other	<u>2,739,517</u>	<u>846,562</u>	<u>353,090</u>	<u>(1,796,103)</u>	<u>2,143,066</u>
	385,397,362	1,191,270	11,242,882	(19,605,844)	378,225,670
Less accumulated depreciation and amortization	<u>(258,916,215)</u>	<u>(13,933,852)</u>	<u>---</u>	<u>19,256,938</u>	<u>(253,593,129)</u>
	<u>\$126,481,147</u>	<u>\$(12,743,582)</u>	<u>\$ 11,242,882</u>	<u>\$(348,906)</u>	<u>\$124,632,541</u>
Nondepreciable capital assets:					
Construction in progress	\$ 47,535,920	\$16,698,098	\$(11,242,882)	\$ ---	\$ 52,991,136
Land	<u>464,429</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>464,429</u>
	<u>\$ 48,000,349</u>	<u>\$16,698,098</u>	<u>\$(11,242,882)</u>	<u>\$ ---</u>	<u>\$ 53,455,565</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.

Commonwealth Ports Authority
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Notes to Financial Statements, continued

6. 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, 2022 consist of the following:

Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2022 and 2028 are listed below.	\$6,855,000
Less current portion	<u>975,000</u>
Long-term portion	<u>\$5,880,000</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>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 975,000	\$ 397,969	\$1,372,969
2024	1,035,000	335,156	1,370,156
2025	1,105,000	268,281	1,373,281
2026	1,170,000	197,188	1,367,188
2027	1,245,000	121,719	1,366,719
2028	<u>1,325,000</u>	<u>41,406</u>	<u>1,366,406</u>
	<u>\$6,855,000</u>	<u>\$1,361,719</u>	<u>\$8,216,719</u>

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 outflows 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.

Commonwealth Ports Authority
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Notes to Financial Statements, continued

6. Revenue Bonds Payable, continued

Seaport Division, continued

At September 30, 2022, deferred outflows from cost of refunding debt amounted to \$372,775. 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, 2022, consist of the following:

Special Revenue Bonds, tax-exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2022 and 2028 are listed below.	\$12,444,113
Special Revenue Bonds, tax-exempt, 2005 Senior Series A: interest and annual installments payable to the Bond Trustee between 2022 and 2031 are listed below.	3,830,882
Discount on 2005 Senior Series A bonds	(71,694)
	16,203,301
Less current portion	<u>2,105,000</u>
Long-term portion	<u>\$14,098,301</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.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 2,105,000	\$ 964,205	\$ 3,069,205
2024	2,235,000	824,835	3,059,835
2025	2,375,000	676,775	3,051,775
2026	2,525,000	519,365	3,044,365
2027	2,685,000	351,973	3,036,973
2028 - 2031	<u>4,278,301</u>	<u>300,603</u>	<u>4,578,904</u>
	<u>\$16,203,301</u>	<u>\$3,637,756</u>	<u>\$19,841,057</u>

Commonwealth Ports Authority
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Notes to Financial Statements, continued

6. Revenue Bonds Payable, continued

Seaport Division, continued

Additionally, CPA has resolved to hold \$8,000,000 in the Seaport Supplemental Reserve Fund. The Supplemental Reserve Fund was established pursuant to the First Supplemental Indenture dated March 1, 2000 for the purpose of providing funding and maintenance for the 1998 Senior Series A Seaport Bonds. At September 30, 2022, total deposits in the Seaport Supplemental Reserve Fund amounted to \$7,935,483.

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, 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.

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.

Commonwealth Ports Authority
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Notes to Financial Statements, continued

6. Revenue Bonds Payable, continued

Bond Redemption, continued

- 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, 2017 and thereafter	100.0%

- b) Mandatory redemption - The 2005 Senior Series A Bonds are subject to mandatory redemption upon notice of completion of the 2005 Project (purchase, acquisition, construction/reconstruction, repair, renovation, improvement, certain capital improvements or expansion of CPA's seaports) or after three years from the date of issuance of the 2005 Senior Series A Bonds from moneys transferred from the Construction Fund to the Optional Redemption Fund in accordance with Section 3.03, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.
- c) Insurance or condemnation award - At the option of CPA and prior to their stated maturity, the 2005 Senior Series A Bonds are subject to redemption from proceeds of any insurance or condemnation awards received by CPA due to a casualty loss or governmental taking of CPA's seaport facilities, if such proceeds are not used to repair or replace such facilities, under the circumstances and upon the conditions prescribed in Section 6.17 of the bond indenture, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.

Commonwealth Ports Authority
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Notes to Financial Statements, continued

6. Revenue Bonds Payable, continued

Bond Redemption, continued

- d) Mandatory sinking account - The 2005 Senior Series A Bonds maturing are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established, 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 \$28,129,474 at September 30, 2022. Pledged gross revenues received during the year ended September 30, 2022 were \$29,081,924. Debt service payments during the year ended September 30, 2022 amounted to \$4,452,568 representing 15% 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, 2022. 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.

Management of CPA has determined that gross revenues consist of total operating revenues, other grant revenue and contributions, interest income, PFCs and insurance proceeds to meet the indenture requirements. For fiscal year 2022, management of CPA determined that 100% of PFCs are considered as gross revenues for these purposes.

Changes in long-term liabilities for the years ended September 30, 2022 are as follows:

	Balance October 1, 2021	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2022	<u>Current</u>	<u>Noncurrent</u>
Bonds payable:						
Airport 1998 Senior Series A	\$ 7,775,000	\$ ---	\$(920,000)	\$ 6,855,000	\$ 975,000	\$ 5,880,000
Seaport 1998 Senior Series A	14,085,000	---	(1,660,000)	12,425,000	1,765,000	10,660,000
Seaport 2005 Senior Series A	4,170,000	---	(320,000)	3,850,000	340,000	3,510,000
Deferred amounts:						
Discount on bonds	(71,698)	---	---	(71,698)	---	(71,698)
	25,958,302	---	(2,900,000)	23,058,302	3,080,000	19,978,302
Other:						
Compensated absences	770,679	502,153	(580,978)	691,854	315,783	376,071
	<u>\$26,728,981</u>	<u>\$ 502,153</u>	<u>\$(3,480,978)</u>	<u>\$23,750,156</u>	<u>\$3,395,783</u>	<u>\$20,354,373</u>

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements, continued

6. Revenue Bonds Payable, continued

Events of Default and Remedies of Bondholders

The outstanding revenue bonds related to government-type activities contains a provision that defines events of default as:

- a. default of by CPA in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceeding for redemption, by declaration of otherwise; default by CPA in the redemption from any Mandatory Sinking Account of any Term Bonds in the amounts at time provided therefore; or default by CPA in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;
- b. default by CPA in the observance of any of the covenants, agreement or conditions on its part in this Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to CPA by the Trustee, or to CPA and the Trustee by any Credit Provider or by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; except that, if such default can be remedied but not within such sixty (60) day period and if CPA has taken all action reasonably possible to remedy such default within such sixty (60) day period, such default shall not become an Event of Default hereunder for so long as CPA shall diligently proceed to remedy same in accordance with and subject to any directions established by the Trustee; or
- c. an event of bankruptcy. Upon the occurrence of an event of default, the Trustee may, and upon the written request of the owners of not less than a majority in aggregate principal amount of Bonds then outstanding shall, declare the principal of all Bonds then outstanding and the interest accrued thereon due and payable on a date specified in such declaration (not less than five nor more than nine days after such declaration), and such principal and interest shall thereupon become and be immediately due and payable on such specified date, and interest shall cease to accrue on the Bonds from and after such date. The entire principal amount of the Bonds and such accrued interest shall become due and payable on the date of acceleration set forth in such notice of declaration, and interest shall cease to accrue on the Bonds from and after such date, provided moneys are held by the Trustee as of such date sufficient to pay such principal and accrued interest to such date. If an event of default shall occur and be continuing, all revenues, gross revenue and any other funds then held or thereafter received by the Trustee or the Depository under any of the provisions of the indenture shall be under the control of and apply by the Trustee as dictated by the Indenture.

7. 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 commercial insurance coverage during the past three years.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements, continued

8. Related Party Transactions

Total related party transactions for the year ended September 30, 2022, and the related payable balances, are as follows:

	<u>Revenues and Capital Contributions</u>	<u>Expenses</u>	<u>Due to Related Parties</u>
Commonwealth Utilities Corporation (CUC)	\$ ---	\$3,061,681	\$1,242,679
CNMI Government	<u>1,988,177</u>	<u>---</u>	<u>1,498,406</u>
	<u>\$1,988,177</u>	<u>\$3,061,681</u>	<u>\$2,741,085</u>

On November 1, 2019, CPA entered into an omnibus agreement with CUC which gave CUC a permanent easement over water wells, water lines, sand filtration, a 20-million-gallon tank, and power poles and transmission lines to power the water wells, located on CPA property. CUC is responsible for maintenance of the permanent easement and for maintaining a continuous water supply to CPA. CUC will not charge CPA for water up to \$600,000 annually on an indefinite basis beginning November 1, 2019 and CPA will recognize revenue up to this amount annually as water expense is incurred. For the year ended September 30, 2022, total water utility charges offset amounted to \$62,665 as presented in the accompanying statement of revenues, expenses and changes in net position.

In June 2022, Public Law 22-18 was signed to exempt CPA from paying the 1% OPA fee with respect to airport revenues. In September 2022, the Secretary of Finance approved CPA's request to waive past due amounts due to the CNMI Government for the airport division which amounted to \$2,325,954. The amount is recorded as other nonoperating revenue in the accompanying statement of revenues, expenses and change in net position. The remaining amount due to the CNMI Government relates to the 1% OPA fee of \$399,406 for the seaport division as of September 30, 2022.

CPA recorded contributions of \$1,962,000 from the CNMI government during the year ended September 30, 2022 and are recorded as a component of other grant revenues and contributions in the accompanying statement of revenues, expenses and change in net position.

9. Leases

CPA has adopted policies to assist in determining lease treatment in accordance with the requirements of GASB Statement No. 87, which include the following: (1) the maximum possible lease term is non-cancelable by both lessee and lessor and is more than 12 months and (2) the terms of the lease will include possible extension periods that are deemed to be reasonably certain given all available information, regarding the likelihood of renewal.

CPA, as a lessor, recognizes a lease receivable and a deferred inflows of resources at the commencement of the lease term, with exceptions for certain regulated leases and short-term leases. As lessor, the asset underlying the lease is not derecognized. The lease receivable is measured at the present value of the lease payments expected to be received during the lease term. The deferred inflows of resources is measured at the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that relates to future periods.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements, continued

9. Leases, continued

CPA leases certain assets to various third parties. The assets leased include building facilities, land, office space, terminal space for concessions, rental car facilities, and others. Majority of the lease agreements are a fixed monthly fee and may contain annual or periodic escalation clauses. For some leases, the monthly fee is a percentage of gross revenue, which may vary each month. Lease terms vary from month-to-month to over 20 years. Majority of the leases have a term of less than five (5) years.

CPA's Airport Division leases rental car concession booths, office space and other ground space. 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 year ended September 30, 2022 amounted to \$4,348,362.

Future minimum payments that are included in the measurement of the lease receivable as of September 30, 2022 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 1,263,809	\$ 386,415	\$ 1,650,224
2024	1,059,508	375,707	1,435,215
2025	783,779	365,002	1,148,781
2026	801,702	353,726	1,155,428
2027	754,342	342,075	1,096,417
2028 - 2032	3,819,698	1,531,198	5,350,896
2033 - 2037	3,434,939	1,227,143	4,662,082
2038 - 2042	3,488,191	940,551	4,428,742
2043 - 2038	2,576,314	646,636	3,222,950
2048 - 2052	1,884,792	472,551	2,357,343
2053 - 2058	2,276,577	283,451	2,560,028
2053 - 2062	<u>1,911,988</u>	<u>64,723</u>	<u>1,976,711</u>
	<u>\$24,055,639</u>	<u>\$6,989,178</u>	<u>\$31,044,817</u>

Regulated Leases

In accordance with GASB 87, CPA does not recognize a lease receivable and deferred inflows of resources for regulated leases. Regulated leases are certain leases that are subject to external laws, regulations, or legal rulings. CPA's regulated leases include the Letters of Authorization (LOAs) issued to the airlines which authorize the air carriers to utilize spaces within the passenger terminal building of the airport. Total revenue recognized for these regulated leases amounted to \$345,587 for the year ended September 30, 2022 and is recorded under other income in the accompanying statement of revenues, expenses and change in net position.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Notes to Financial Statements, continued

9. Commitment and Contingencies

Contingencies

CPA participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$20,000 have been set forth in CPA's Single Audit Report for the year ended September 30, 2022. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

In accordance with 14 CFR Part 158.67(c), at least annually during the period the PFC is collected, held or used, each public agency shall provide for an audit of its PFC account. Cumulative questioned costs of \$879,477 have been set forth in CPA's PFC report for the year ended September 30, 2022. The ultimate disposition of these questioned costs can be determined only by final action of the Federal Aviation Administration (FAA); 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 resulting in material litigation outstanding; however, no indication is yet has come to management's attention that would require a related liability in the accompanying financial statements. Management believes that, as a result of its legal defenses and insurance arrangements, none of these matters will have an adverse effect on CPA's financial position, change in net position or cash flows.

10. Major Customers

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

During the year ended September 30, 2022, two customers accounted for 26% of total Airport Division operating revenues. One customer accounted for 19% of total operating revenues of the Seaport Division during the year ended September 30, 2022.

Supplementary Information

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Combining Statement of Net Position

September 30, 2022

	Airport Division	Seaport Division	Elimination	Total
Assets and Deferred Outflows of Resources				
Current assets:				
Cash	\$ 24,924,636	\$ 19,346,117	\$ ---	\$ 44,270,753
Receivables, net:				
Grantor agencies	7,102,539	28,559	---	7,131,098
Operations, net	674,554	312,694	---	987,248
Due from other division	111,328	---	(111,328)	---
Officers and employees	6,999	---	---	6,999
Prepaid expenses	307,339	66,433	---	373,772
Lease receivable, current portion	783,460	480,349	---	1,263,809
Investments, restricted	31,826,971	16,331,629	---	48,158,600
Total current assets	65,737,826	36,565,781	(111,328)	102,192,279
Lease receivable, net	3,725,815	19,066,015	---	22,791,830
Depreciable capital assets, net of accumulated depreciation and amortization	104,888,701	19,743,840	---	124,632,541
Nondepreciable capital assets	51,630,106	1,825,459	---	53,455,565
Total noncurrent assets	160,244,622	40,635,314	---	200,879,936
Deferred outflows from cost of refunding debt	---	327,775	---	327,775
Total assets and deferred outflows of resources	\$ 225,982,448	\$ 77,528,870	\$ (111,328)	\$ 303,399,990
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities:				
Revenue bonds payable, current portion	\$ 975,000	\$ 2,105,000	\$ ---	\$ 3,080,000
Contractors payable	6,800,691	292,756	---	7,093,447
Trade and other payables	953,160	206,884	---	1,160,044
Due to related parties	2,274,581	466,504	---	2,741,085
Due to other division	---	111,328	(111,328)	---
Accrued expenses	660,927	159,225	---	820,152
Compensated absences, current portion	281,391	34,392	---	315,783
Total current liabilities	11,945,750	3,376,089	(111,328)	15,210,511
Compensated absences, net of current portion	333,744	42,327	---	376,071
Revenue bonds payable, net of current portion	5,880,001	14,098,301	---	19,978,302
Total noncurrent liabilities	6,213,745	14,140,628	---	20,354,373
Deferred inflows of resources from leases	23,611,074	20,222,243	---	43,833,317
Total liabilities and deferred inflows of resources	41,770,569	37,738,960	(111,328)	79,398,201
Net position:				
Net investment in capital assets	149,663,806	5,693,773	---	155,357,579
Restricted - debt service and other purposes	31,826,971	16,331,629	---	48,158,600
Unrestricted	2,721,102	17,764,508	---	20,485,610
Total net position	184,211,879	39,789,910	---	224,001,789
Total liabilities, deferred inflows of resources and net position	\$ 225,982,448	\$ 77,528,870	\$ (111,328)	\$ 303,399,990

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Combining Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2022

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	\$ ---	\$ 5,119,141	\$ 5,119,141
Concession and lease income	2,884,048	1,464,314	4,348,362
Aviation fees	1,212,891	---	1,212,891
Other income	667,075	1,017,719	1,684,794
Bad debts	(243,514)	(117,359)	(360,873)
Total operating revenues	<u>4,520,500</u>	<u>7,483,815</u>	<u>12,004,315</u>
Operating expenses:			
Depreciation and amortization	10,784,107	3,149,745	13,933,852
Salaries and wages	5,996,126	1,326,228	7,322,354
Insurance	2,256,093	1,267,081	3,523,174
Utilities	2,664,497	397,185	3,061,682
Employee benefits	1,063,241	275,204	1,338,445
Contractual services	807,789	119,139	926,928
Repairs and maintenance	518,061	104,820	622,881
Supplies	528,800	48,362	577,162
Miscellaneous	307,549	233,770	541,319
Professional fees	272,339	25,215	297,554
Fuel	189,339	17,926	207,265
Travel	98,244	67,765	166,009
Promotion and advertising	63,832	13,434	77,266
Penalties and interest	152	---	152
Total operating expenses	<u>25,550,169</u>	<u>7,045,874</u>	<u>32,596,043</u>
Operating (loss) income	<u>(21,029,669)</u>	<u>437,941</u>	<u>(20,591,728)</u>
Nonoperating revenues (expenses):			
Other grant revenues and contributions	13,910,209	146,177	14,056,386
Other nonoperating revenue	2,325,954	---	2,325,954
Interest on leases	47,998	311,009	359,007
Interest income	142,863	100,365	243,228
Water utility charges offset	62,665	---	62,665
Loss on disposal of equipment	(342,226)	(6,680)	(348,906)
Typhoon-related damages	(1,062,873)	---	(1,062,873)
Other nonoperating expense	(1,306,848)	---	(1,306,848)
Interest expense	(457,188)	(1,164,998)	(1,622,186)
Total nonoperating revenues (expenses), net	<u>13,320,554</u>	<u>(614,127)</u>	<u>12,706,427</u>
Loss before capital contributions	<u>(7,709,115)</u>	<u>(176,186)</u>	<u>(7,885,301)</u>
Capital contributions	<u>14,174,211</u>	<u>---</u>	<u>14,174,211</u>
Change in net position	<u>6,465,096</u>	<u>(176,186)</u>	<u>6,288,910</u>
Net position at beginning of year	<u>177,746,783</u>	<u>39,966,096</u>	<u>217,712,879</u>
Net position at end of year	<u>\$ 184,211,879</u>	<u>\$ 39,789,910</u>	<u>\$ 224,001,789</u>

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Combining Statement of Cash Flows

Year ended September 30, 2022

	Airport Division	Seaport Division	Eliminations	Total
Cash flows from operating activities:				
Cash received from customers	\$ 2,609,491	\$ 7,580,980	\$ (15,107)	\$ 10,175,364
Cash payments to suppliers for goods and services	(9,598,543)	(2,455,417)	15,107	(12,038,853)
Cash payments to employees for services	(7,125,828)	(1,613,796)	---	(8,739,624)
Net cash (used for) provided by operating activities	(14,114,880)	3,511,767	---	(10,603,113)
Cash flows from investing activities:				
Net investment liquidation, restricted	1,505,554	695,675	---	2,201,229
Interest income	177,868	147,669	---	325,537
Cash provided by investing activities	1,683,422	843,344	---	2,526,766
Cash flows from noncapital financing activity:				
Other grant revenues and contributions	13,910,209	146,177	---	14,056,386
Cash provided by noncapital financing activity	13,910,209	146,177	---	14,056,386
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(12,624,732)	(1,723,548)	---	(14,348,280)
Capital contributions, net	8,868,312	(26,177)	---	8,842,135
Water utility charges offset	62,665	---	---	62,665
Principal paid on revenue bond maturities	(920,000)	(1,980,000)	---	(2,900,000)
Interest paid on revenue bonds and note payable to related party	(457,188)	(1,095,381)	---	(1,552,569)
Net cash provided by (used for) capital and related financing activities	(5,070,943)	(4,825,106)	---	(9,896,049)
Net decrease in cash and cash equivalents	(3,592,192)	(323,818)	---	(3,916,010)
Cash at beginning of year	28,516,828	19,669,935	---	48,186,763
Cash at end of year	\$ 24,924,636	\$ 19,346,117	\$ ---	\$ 44,270,753
Reconciliation of operating (loss) income to net cash (used for) provided by operating activities:				
Operating (loss) income	\$ (21,029,669)	\$ 437,941	\$ ---	\$ (20,591,728)
Adjustments to reconcile operating (loss) income to net cash (used for) provided by operating activities:				
Depreciation and amortization	10,784,107	3,149,745	---	13,933,852
Loss on disposal of fixed assets	(342,226)	(6,680)	---	(348,906)
Typhoon-related damages	(1,062,873)	---	---	(1,062,873)
Bad debts	243,514	117,359	---	360,873
(Increase) decrease in assets:				
Receivables - operations	(848,121)	66,940	---	(781,181)
Interdivisional accounts	15,107	---	(15,107)	---
Receivables - officers and employees	(5,361)	---	---	(5,361)
Prepaid expenses	44,405	148,628	---	193,033
Increase (decrease) in liabilities:				
Trade and other payables	927,028	168,608	---	1,095,636
Interdivisional accounts	---	(15,107)	15,107	---
Due to related parties	(2,575,150)	12,027	---	(2,563,123)
Accrued expenses	114,968	(468,197)	---	(353,229)
Unearned revenues	(314,148)	(87,133)	---	(401,281)
Compensated absences	(66,461)	(12,364)	---	(78,825)
Net cash (used for) provided by operating activities	\$ (14,114,880)	\$ 3,511,767	\$ ---	\$ (10,603,113)

COMMONWEALTH PORTS AUTHORITY

REPORT OF INDEPENDENT AUDITORS ON
INTERNAL CONTROL AND ON COMPLIANCE

Year ended September 30, 2022



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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Commonwealth Ports Authority

We have audited, 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 (*Government Auditing Standards*), the financial statements of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands, which comprise the statement of net position as of September 30, 2022, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”), and have issued our report dated August 29, 2023. Our report was qualified due to CPA not recording depreciation on long-lived assets that are in use.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CPA’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CPA’s internal control. Accordingly, we do not express an opinion on the effectiveness of CPA’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether CPA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2022-002.

CPA's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on CPA's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. CPA's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The logo for Ernst + Young, featuring the company name in a stylized, cursive script font.

August 29, 2023



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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Board of Directors
Commonwealth Ports Authority

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the Commonwealth Ports Authority's (CPA's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of CPA's major federal programs for the year ended September 30, 2022. CPA's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on ALN 20.106 Airport Improvement Program

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, CPA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on ALN 20.106 Airport Improvement Program for the year ended September 30, 2022.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, CPA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2022.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of CPA and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of CPA's compliance with the compliance requirements referred to above.

Matter(s) Giving Rise to Qualified Opinion on ALN 20.106 Airport Improvement Program

As described in the accompanying Schedule of Findings and Questioned Costs, CPA did not comply with requirements regarding ALN 20.106 Airport Improvement Program as described in finding number 2022-003 for Equipment and Real Property Management.

Compliance with such requirements is necessary, in our opinion, for CPA to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to CPA's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on CPA's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about CPA's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding CPA's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of CPA's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of CPA's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2022-004 and 2022-005. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on CPA's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. CPA's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

CPA is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. CPA's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-003 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2022-004 and 2022-005 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

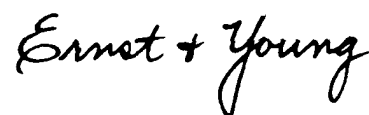
Government Auditing Standards requires the auditor to perform limited procedures on CPA's response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. CPA's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

CPA is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. CPA's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of CPA as of and for the year ended September 30, 2022, and have issued our report thereon dated August 29, 2023. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

The logo for Ernst + Young, featuring the company name in a stylized, handwritten-style script.

August 29, 2023

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Schedule of Expenditures of Federal Awards

Year ended September 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Assistance Listing Number</u>	<u>Other Identification Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation Direct Programs				
Airport Improvement Program	20.106			\$ 6,601,400
COVID-19 Airport Improvement Program - Coronavirus Aid, Relief, and Economic Security Act	20.106			6,580,981
COVID-19 Airport Coronavirus Response Grant Program - Coronavirus Response and Relief Supplemental Appropriations Act	20.106			<u>5,146,113</u>
Total U.S. Department of Transportation				<u>18,328,494</u>
U.S. Department of the Treasury Pass-Through Program				
From CNMI Government - Coronavirus State and Local Fiscal Recovery Funds	21.027		CNMI22028 CNMI22027	1,002,000 <u>960,000</u>
Total U.S. Department of the Treasury				<u>1,962,000</u>
U.S. Department of Homeland Security Direct Programs				
National Explosives Detection Canine Team Program (NEDCTP)	97.072	70T02020T9NNCP431		150,516
Electronic Baggage Screening Program	97.U01	70T04021T7672N019		7,572,762
Law Enforcement Officer Reimbursement Program	97.U02	70T02021T6114N202		<u>36,017</u>
Subtotal U.S. Department of Homeland Security Direct Programs				<u>7,759,295</u>
U.S. Department of Homeland Security Pass-Through Programs				
From CNMI Government				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		FEMA-4511-DR-MP	139,637
Hazard Mitigation Grant Program	97.039		HMGP-DR-4404-27R	26,177
Hazard Mitigation Grant Program	97.039		HMGP-4404-08-11R	<u>14,944</u>
Subtotal U.S. Department of Homeland Security Pass-Through Programs From CNMI Government				<u>180,758</u>
Total U.S. Department of Homeland Security				<u>7,940,053</u>
Total Expenditures of Federal Awards				<u>\$28,230,547</u>
Reconciliation:				
Per Statement of Revenues, Expenses and Changes in Net Position:				
Capital contributions				\$14,174,211
Other grants revenues and contributions:				
Contributions from the CNMI				1,962,000
Other federal grant revenues and contributions				11,954,749
Prior year expenditures reflected in the current year				139,637
Airport grant revenue not reflected in the current Schedule of Expenditures of Federal Awards				<u>(50)</u>
				<u>\$28,230,547</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Commonwealth Ports Authority
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Notes to the Schedule of Expenditures of Federal Awards

Year ended September 30, 2022

1. Scope of Audit

CPA was established as a public corporation by CNMI Public Law 2-48, effective November 8, 1981. All significant operations of CPA are included in the scope of the Single Audit. The U.S. Department of the Interior's Office of the Inspector General has been designated as CPA's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of CPA under programs of the federal government for the year ended September 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of CPA, it is not intended to and does not present the financial position, changes in net position or cash flows of CPA.

3. Summary of Significant Accounting Policies

Matching Requirements

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

Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. All expenses and capital outlays are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

FEMA expenditures recorded in the FY 2022 SEFA were incurred in FY 2021 due to the receipt of the grant award in FY 2022 from the grantor.

4. Indirect Cost Rate

CPA does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.

Commonwealth Ports Authority
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Schedule of Findings and Questioned Costs

Year ended September 30, 2022

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Qualified

Internal control over financial reporting:

Material weakness(es) identified?

YES NO

Significant deficiency(ies) identified?

YES NONE REPORTED

Noncompliance material to the financial statements noted?

YES NO

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

YES NO

Significant deficiency(ies) identified?

YES NONE REPORTED

Type of auditor's report issued on compliance for major federal programs:

ALN 20.106
All other major Federal programs

Qualified
Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

YES NO

Identification of major federal programs:

Assistance
Listing Number

Name of federal program

20.106	Airport Improvement Program
21.027	Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)
97.U01	Electronic Baggage Screening Program

Commonwealth Ports Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2022

Dollar threshold used to distinguish between
Type A and Type B Programs: \$846,916

Auditee qualified as low-risk auditee? YES X NO

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Finding</u>
2022-001	Work-In-Progress
2022-002	Local Noncompliance - Procurement

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Assistance Listing Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2022-003	20.106	Equipment and Real Property Management	\$ ---
2022-004	21.027	Activities Allowed or Unallowed	\$ 20,000
2022-005	21.027	Reporting	\$ ---

Commonwealth Ports Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2022

Finding No.: 2022-001

Area: Work In-Progress

Criteria

Internal controls over work in-progress (WIP) should exist to ensure that as of the reporting period, WIP close-outs are complete so that (1) reclassification to the appropriate depreciable capital asset category is done and (2) depreciation is properly calculated based on the useful lives and correct dates the assets are placed in service.

Condition

CPA's nondepreciable capital assets totaling \$53,455,565 as of September 30, 2022 includes approximately \$33 million in runway improvement costs for CPA's lone airport runway. These costs remain in WIP. The runway improvements have been in use since 2016. Accounting principles generally accepted in the United States of America require that long-lived assets that are in use be depreciated over their estimated useful lives. The \$33 million runway improvements are resources with present service capacity that CPA controls and enables CPA to provide services to fulfill its mission.

Cause

There is an ongoing dispute between CPA and the contractor who performed the runway improvement project. The dispute focuses on alleged poor quality work which is the proximate cause for CPA's position that the runway improvements are not completed.

Effect

If CPA had recorded depreciation, then total noncurrent assets would decrease by approximately \$10,100,000 as of September 30, 2022, net position at the beginning of October 1, 2021 would decrease by \$8,400,000 and depreciation expense and change in net position would increase and decrease by \$1,700,000, respectively, for the year ended September 30, 2022.

Recommendation

CPA should maintain a WIP control log that could be used to track the various projects and their progress. Additionally, the accounting department should consider reviewing the percentage of completion of projects and closely coordinate with the engineering department on the status to ensure all completed projects are properly accounted for. Review of completed projects should, at the least, be done semi-annually.

View of Responsible Officials

CPA's Corrective Action Plan provides a detailed rationale for disagreement with this finding.

Commonwealth Ports Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2022

Finding No.: 2022-001, continued

Area: Work In-Progress

Auditor response:

Accounting principles generally accepted in the United States of America require that long-lived assets that are in use be depreciated over their estimated useful life.

While CPA has terminated the construction project prior to its completion, the rehabilitated runway has been used and is being used by CPA in its flight operations, being the sole runway of the Saipan International Airport. Although the contractor's work was deemed not compliant with the contract specifications, CPA has been using the same runway since the termination of the construction contract.

Although the project was deemed contractually unacceptable and noncompliant, the entire runway improvement project should be subjected to depreciation since the asset has been used by CPA in its flight operations and revenues from its utility have been recognized.

Accordingly, our finding stands.

Commonwealth Ports Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2022

Finding No. 2022-002

Area: Local Noncompliance - Procurement

Criteria

CPA's procurement rules and regulations under Title 40 Regulations, Section 50, are as follows:

§40-50-210 Small Purchases

- §40-50-210(a) states that any procurement not exceeding \$25,000 may be made in accordance with these small purchase procedures. However, procurement regulations shall not be artificially divided so as to constitute a small purchase.
- §40-50-210(b) states that the Executive Director or Procurement Officer or authorized designee shall obtain written price quotations and detailed proposals of the product description or services to be rendered. Any Authority section Manager or Supervisor may initiate a Small Purchase procurement by coordinating such a request through the Procurement Officer, who shall aid in preparing the request for quotations and a description of the goods or services required.
- §40-50-210(c) states that purchase orders or purchase requisition requests may be utilized for small purchases below \$25,000 and may be administered by the Comptroller's Office through the Procurement Officer. For any procurement valued from \$1,000 to \$25,000, the Executive Director or Procurement Officer shall submit a request for a written quotation or written price from at least three potential on or off-island vendors. A request for a written quotation must be in writing.

§40-50-215 Sole Source Procurement

- §40-50-215(a) states that "a contract may be awarded for a supply, service or construction item without competition when the Contracting Officer determines in writing that there is only one source for the required supply, service or construction item. This section shall be constructed to include the purposes of obtaining professional services in highly specialized or technical expertise in aviation and admiralty; compliance with federal regulations; rate-setting consulting services; and whenever so required by any federal granting agencies or grant requirements."

Commonwealth Ports Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2022

Finding No. 2022-002, continued

Area: Local Noncompliance - Procurement

Criteria, continued

- §40-50-215(b) states that “the written documentation shall state the unique capabilities required and why they are required, and the consideration given to alternative sources. The written determination shall contain the specific unique capabilities required; the specific unique capabilities of the contractor; the availability of funding for such services as certified by the Comptroller; and a written copy of any applicable federal grant or regulation under which the services or required.”

§40-50-220 Emergency Procurement

- §40-50-220 states that in case of any major public calamity, or whenever it is in the interest of aviation or shipping safety, or necessary to keep the ports operable by the Authority or to protect any property as well as the protection of the environment or the people of the CNMI, the Executive Director in the exercise of his duties, may determine that the public interest and necessity demand the immediate expenditure of funds to keep the ports facilities open to traffic or in a safe condition, and thereupon authorize the expenditure of such sums as may be needed without the observation of the provision requiring contracts, bids or notices that the provisions of this chapter shall be suspended and waived on account of such emergency or calamity.

In such emergency conditions, the Executive Director shall issue a summary finding or report of such calamity as soon as practical to the Comptroller and the Board advising of the emergency or calamity. Such “Emergency Notice and Emergency Expenditure of Funds” shall set forth the description of the emergency; the services or goods needed to address the emergency situation; the estimated cost for such goods or services; and the plan of action to be carried out. The Comptroller, whenever practical and preferably within five days or sooner, shall sign and concur with the Executive Director as to such emergency and undertake measures for the fiscal reprogramming and justification of expenditure for. Following the resolution of the emergency the Executive Director shall file his report with the Board within five days providing the further details relating to the emergency; the actions taken; the expenditures; and any recommendations. The Board may issue continuing authorizations for the expenditure of funds described in this section, placing therein the conditions which will give rise to such special expenditures.

Commonwealth Ports Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2022

Finding No. 2022-002, continued

Area: Local Noncompliance - Procurement

Condition

We tested twenty-five transactions and identified noncompliance with CPA's procurement regulations as follows:

1. For six (or 24%), the procurement file indicates emergency procurement was used, but no required report from the Executive Director was provided to the board after the resolution of the emergency.

<u>Location</u>	<u>P.O. No.</u>	<u>P.O. Date</u>	<u>Nature of Emergency</u>	<u>Amount</u>	<u>Emergency End Date</u>
Airport	SPN-22-24972	10/06/2021	Super Typhoon Yutu Repairs	\$10,715	12/26/2021
Airport	SPN-22-24983	10/14/2021	Replacement of Programmable Logic Controller (PLC) at Saipan International Airport to comply with FAA.	\$12,000	01/24/2022
Airport	SPN-22-25058	01/05/2022	COVID-19 Pandemic Sanitation	\$ 2,902	04/04/2022
Airport	SPN-22-25165	03/15/2022	Repair of Generator Engine no. 2 at Saipan International Airport	\$41,880	07/02/2022
Seaport	S-CPA-22-4019	11/17/2021	Significant damages to seaport water pipelines	\$65,095	12/12/2021
Seaport	S-TIQ-22-3839	12/13/2021	Super Typhoon Yutu Repairs	\$23,400	01/03/2022

2. For three (or 12%), the procurement file indicates sole source procurement was used, but procurement files did not have a justification memo for the sole source procurement, and three vendor quotations were not present.

<u>Location</u>	<u>P.O. No.</u>	<u>P.O. Date</u>	<u>Invoice No.</u>	<u>Invoice Date</u>	<u>Amount</u>
Airport	SPN-22-25084	01/21/2022	CPA02072022-01	02/07/2022	\$14,400
Airport	SPN-22-25186	04/04/2022	90118066	06/24/2022	\$15,322
Airport	SPN-22-25269	06/08/2022	38702	07/19/2022	\$12,523

Commonwealth Ports Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2022

Finding No. 2022-002, continued

Area: Local Noncompliance-Procurement

Condition

3. For one (or 4%) (invoice no. 22774 dated 03/25/2022 amounting to \$145,955), the procurement file indicates emergency procurement was used, but the required “Emergency Notice and Emergency Expenditure of Funds” report to the Board was not on file.
4. For one (or 4%) (invoice no. SS822375987 dated 06/27/2022 amounting to \$41,880), the emergency was resolved on July 8, 2022, but the emergency resolution to the board was filed on July 29, 2022. The emergency resolution was not filed in a timely manner, as required by the procurement regulations.

Cause

CPA lacks controls over ensuring compliance with procurement regulations.

Effect

CPA is noncompliant with local procurement regulations.

Recommendation

CPA should establish a stronger review process over compliance with its procurement regulations. Responsible personnel should document the required rationales and determinations prior to approving the use of emergency procurement or sole source procurement accordingly.

Views of Responsible Officials

Management agrees with the finding. Refer to separate Corrective Action Plan.

Commonwealth Ports Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2022

Finding No.: 2022-003
Federal Agency: U.S. Department of Transportation
Assistance Listings Program: 20.106 Airport Improvement Program
Award Numbers: All AIP Grants
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria:

In accordance with applicable equipment and real property management requirements, a State must use, manage and dispose of equipment acquired under a Federal award by the State in accordance with State laws and procedures.

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the federal award identification number), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal of the property;
- (2) A physical inventory of the property must be taken and the results reconciled with the property records annually.

Condition:

Tests of equipment and real property noted the following:

1. CPA performed a capital assets inventory during fiscal year 2022. Based on controls testing, a reconciliation was performed at the department level; however, it was not reconciled with accounting records, resulting in \$1,824,424 that were identified as not program assets. Total fixed asset additions capitalized and related to CPA's major program, is as follows:

Fiscal Year	Capital Outlays
2022	\$ 5,691,628
2021	\$12,113,793
2020	\$ 3,681,264
2019	\$29,437,789
2018	\$ 2,901,938

Commonwealth Ports Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2022

Finding No.: 2022-003, continued
 Federal Agency: U.S. Department of Transportation
 Assistance Listings Program: 20.106 Airport Improvement Program
 Award Numbers: All AIP Grants
 Area: Equipment and Real Property Management
 Questioned Costs: \$-0-

Condition, continued:

2. The fixed assets schedule did not include information such as who holds title and the use of the assets.

Of nine items (or 10%) tested of a total population of eighty-nine FAA-funded capital assets, we noted deficiencies, as follows:

3. One item (or 11%) has been unidentified, and management was not able to substantiate the existence of the actual fixed asset. It also has outlived its 20-year life expectancy.

<u>General Ledger Asset Account No.</u>	<u>System No.</u>	<u>Description</u>	<u>Acquisition Date</u>	<u>Acquisition Cost</u>	<u>Net Book Value</u>
1520-311	000047	FAA 06-69-0011-04	01/01/81	\$1,503,392	\$ ---

Cause:

CPA lacks oversight responsibility and monitoring controls over compliance with equipment and real property management requirements.

Effect:

CPA is in noncompliance with applicable equipment and real property management requirements. No questioned costs are presented as we are unable to quantify the extent of noncompliance.

Commonwealth Ports Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2022

Finding No.:	2022-003, continued
Federal Agency:	U.S. Department of Transportation
Assistance Listings Program:	20.106 Airport Improvement Program
Award Numbers:	All AIP Grants
Area:	Equipment and Real Property Management
Questioned Costs:	\$-0-

Identification as a Repeat Finding: Finding 2021-002.

Recommendation:

CPA should reconcile the results of the annual physical inventory to the property records and ascertain that the acquisition costs of the individual assets agree to the records of accounting. Further, sufficient details should be included in the fixed assets subledger to specifically identify the individual assets.

Views of Responsible Officials:

Management states agreement. Refer to separate Corrective Action Plan.

Commonwealth Ports Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2022

Finding No.: 2022-004
 Federal Agency: U.S. Department of the Treasury
 Pass-Through Entity: CNMI Government
 Assistance Listings Program: 21.027 Coronavirus State and Local Fiscal Recovery Funds
 Federal Award Nos.: CNMI22027
 Area: Activities Allowed or Unallowed
 Questioned Costs: \$20,000

Criteria:

In accordance with 31 CFR Part 35 (Treasury’s Final Rule), recipients may use payments from Program funds to provide premium pay for essential workers if each eligible worker falls into one of three categories: 1) The worker’s pay is below the wage threshold, 2) the worker is not exempt from the FSLA overtime provisions, or 3) the recipient has submitted a written justification to Treasury (or to the pass-through entity).

Essential worker is defined as those employees who face greater risk of exposure due to the pandemic and those workers who continue to bear the risk of maintaining the ongoing operation of vital facilities and services.

Condition:

Tests of twenty-five expenditures, aggregating \$1,067,404 of a population of \$1,962,016, noted that for four (or 16%), premium pay was paid to employees not deemed essential workers, as follows:

	Emp. No.	Dept	Position	Questioned Costs
1	11-0185	Terminal	Assistant Supervisor	\$ 5,000
2	01-0492	Executive Director	Grants Coordinator	\$ 5,000
3	03-3681	Engineering	Executive Assistant/Project Manager	\$ 5,000
4	08-0076	Custodial	Supervisor	\$ <u>5,000</u>
				\$ <u>20,000</u>

Cause:

CPA did not adhere to the essential worker requirements based on the Treasury’s Final Rule.

Effect:

CPA is in noncompliance with activities allowed or unallowed.

Recommendation:

Prior to expending federal funds from a pass-through entity, responsible personnel should read the terms and conditions of the subrecipient agreement and seek guidance, if necessary, on the use of the funds.

Views of Responsible Officials:

CPA’s Corrective Action Plan provides a detailed rationale for disagreement with this finding.

Commonwealth Ports Authority
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Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2022

Finding No.:	2022-004, continued
Federal Agency:	U.S. Department of the Treasury
Pass-Through Entity:	CNMI Government
Assistance Listings Program:	21.027 Coronavirus State and Local Fiscal Recovery Funds
Federal Award Nos.:	CNMI22027
Area:	Activities Allowed or Unallowed
Questioned Costs:	\$20,000

Auditor response:

When CPA received the subrecipient terms and conditions in May 2022, which included "...ensuring compliance with US Treasury's rules and guidelines found in the Act and the Final Rule," CPA should have reassessed the premium pay expenditures for compliance.

Commonwealth Ports Authority
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Schedule of Findings and Questioned Costs, continued

Year ended September 30, 2022

Finding No.:	2022-005
Federal Agency:	U.S. Department of the Treasury
Pass-Through Entity:	CNMI Government
Assistance Listings Program:	21.027 Coronavirus State and Local Fiscal Recovery Funds
Federal Award Nos.:	CNMI22028 and CNMI22027
Area:	Reporting
Questioned Costs:	\$-0-

Criteria:

Based on the subrecipient agreement from the CNMI Government as the pass-through entity, the subrecipient agrees to submit quarterly reports to the Department of Finance Office of the Secretary no later than fifteen (15) days following the end of the quarter.

Condition:

All FY 2022 quarterly reports for agreement no. CNMI22028 were prepared and submitted six months after the fiscal year had ended and only after auditor inquiry during fieldwork. Quarterly reports for agreement no. CNMI22027 were prepared and submitted eight months after the fiscal year had ended and after fieldwork was completed.

Cause:

CPA lacks internal controls over compliance with applicable reporting requirements. CPA failed to timely request for its subrecipient agreement from the CNMI Government after the funds were disbursed to them in FY 2021.

Effect:

CPA is in noncompliance with applicable reporting requirements. No questioned cost is reported as we are unable to quantify the extent of noncompliance.

Recommendation:

CPA should establish and implement internal controls over compliance with applicable reporting requirements. Prior to expending federal funds from a pass-through entity, responsible personnel should obtain and read the terms and conditions of the subrecipient agreement.

Views of Responsible Officials:

Management states agreement. Refer to separate Corrective Action Plan.



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Finding No 2022-001

Name of Contact Person: Joseph Hallahan, Staff Attorney
Skye Aldan Hofschneider, Comptroller
Wendi Prater, Executive Assistant/Project Manager

Corrective Action:

CPA disagrees with the finding. CPA maintains a WIP ledger to properly account for funding associated with ongoing projects that have not yet reached completion. The CPA Accounting Department requires that the respective CPA Department certify projects to document completion. Once a project is certified as completed, it transitions from a WIP to a fixed asset on the balance sheet and is depreciated accordingly. This is done to ensure accurate financial reporting and to maintain transparency in the accounting of such projects. The Runway Rehabilitation project has not been certified as completed, and the Engineering Department maintains that the project is incomplete.

The project in question is the rehabilitation of Runway 7/25. This project is incomplete because the contractor never constructed the improvements to contract specifications. The project documents support this conclusion because no work under the project has received “Partial Acceptance,” “Final Acceptance,” or “Substantial Completion” status. Further, the Federal Aviation Administration (FAA) and the project’s construction manager have stated that the work completed by the contractor does not meet the contract’s acceptance criteria and that the on-site visual evaluation and forensic testing and analysis provide a technical basis for the rejection of the runway pavement as constructed.

Last, utilizing a “placed in service” standard as a line of demarcation between WIP and fixed assets in relation to Runway 7/25 is inappropriate as Runway 7/25 has always been “placed in service.” The runway has always been “placed in service” because the runway has always been in use, including during the course of the performance of the Contract. As such, recategorization for accounting purposes of portions of the work of the project from WIP to fixed assets based on a “place in service” standard appears to be inappropriate. In addition, recategorization of the work of the project from WIP to fixed assets could have legal implications on the related pending litigation, and CPA seeks to maintain its accounting records such that they correspond with CPA’s position regarding this project’s status—that the project is incomplete because the contractor never constructed the improvements to contract specifications.

Proposed Completion Date: Ongoing



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Finding No 2022-002

Name of Contact Person: Skye Lynn L. Aldan Hofschneider, Comptroller
Zack Diaz, Internal Auditor

Corrective Action:

CPA agrees with the finding. After similar findings were made last Fiscal Year, CPA implemented Standard Operating Procedures (SOPs) for Procurement as a corrective action measure. These SOPs were adopted in June 2022 and require that CPA Management be trained in all aspects of CPA’s Procurement Rules and Regulations. CPA notes that trainings on the newly developed SOPs were first conducted in August 2022, so it was expected that repeat findings may be found in this audit report. CPA emphasizes that these trainings are continuing and mandatory for all of CPA Management, and CPA expects that the SOPs and related training will resolve this issue moving forward. Further, CPA highlights that the adoption and the implementation of the SOPs have been effective as evidenced by the lack of audit findings made post-August 2022. SOP trainings occur twice per year and will continue indefinitely. With the SOPs implemented and training ongoing, CPA has improved its procurement processing and monitoring for procurement compliance.

Conditions 1, 3 & 4: In August 2023, CPA will implement a standard checklist form for Emergency Procurement. The standard checklist will include Emergency Procurement requirements, such as the “Emergency Notice and Emergency Expenditure of Funds” and the Emergency Resolution report. The checklist will be a part of the procurement routing process and will also include dates to monitor compliance with the five-day reporting requirement. The checklist will be tracked by the respective Departments, Accounting and Procurement divisions.

Condition 2: In August 2022, CPA implemented a standard form for Sole Source Justification. This form includes the SOP and Procurement regulation requirements for the justification of any sole source procurement. CPA Department Heads are required to fully complete the Sole Source justification form, which is then submitted to the Procurement Division, Comptroller, Legal Counsel and Executive Director for review and approval. The review process has been put in place to ensure that sole source requirements are met before the processing of any purchase order.



CPA has developed the following corrective action plan for this finding:

1. Establish Standard Operating Procedures (SOP) for Procurement
CPA has established Procurement SOPs and flowcharts that were implemented and effective on June 30, 2022. The SOPs detail the procurement requirements, responsibilities, and include best practices. These SOPs are based on CPA procurement regulations. The flowchart provides staff a determination on the type of procurement required and the workflow to the next steps in line with the Procurement regulations.
2. Develop a Training Plan for Procurement Procedures
CPA developed a Procurement training plan that was implemented on June 17, 2022. The training plan includes annual requirements for training on procurement regulations, methods and compliance requirements. The training is based on the established SOPs and best practices and is mandatory for CPA Department heads and all staff involved in the procurement process. In response to the audit findings, CPA will continue to develop training focused on Emergency Procurement and Sole Source Procurement requirements.
3. Implement Standard Procurement Forms
Standard procurement forms have been developed to establish additional controls and reviews for all purchases. The standard forms include requirements as per the procurement regulations and are required to be submitted with the applicable procurement requests. CPA will utilize checklists for different procurement types to ensure that all required documents are properly filed and maintained.
4. Internal Auditor Position
An internal auditor position was created on May 16, 2022 and hired on August 29, 2022. Part of the internal auditor's responsibilities include reviewing procurement documents for compliance. The internal auditor reports directly to the CPA Board of Director and provides monthly reports. The internal auditor monthly reports will be used as a tool to identify areas of procurement non-compliance for immediate correction.

Proposed Completion Date: FY 2023



Finding No 2022-003

Name of Contact Person: Skye Aldan Hofschneider, Comptroller
 Zack Diaz, Internal Auditor

Corrective Action:

CPA agrees with this finding. CPA has implemented Equipment Management Standard Operating Procedures (SOPs) in June 2022 and trained staff involved in Equipment Management in August 2022. Because trainings on the newly developed SOPs were first conducted in August 2022, CPA noted and FAA acknowledged that repeat findings may be found in this audit report. CPA emphasizes that SOP trainings are continuing and mandatory for all of CPA Management, and CPA expects that the SOPs and related training will resolve this issue moving forward. Equipment SOP trainings occur twice per year and will continue indefinitely.

In July 2023, CPA issued the inventory and property records to all CPA Department Heads to review, verify and confirm details of each fixed asset and provide additional identifying information for entry. These updates will be submitted to the Procurement Division in August 2023 for verification and entry into the Equipment Management System.

Condition 1: The fixed asset schedule provided to the auditors included a column that listed all contributed fixed assets as funded by the Federal Aviation Administration (FAA). The FAA column was mistakenly entered into the schedule. CPA Accounting verified that the details of all assets that were identified as non-FAA assets indicate funding through other federal or local programs. The fixed asset schedule will go through verification by the Accounting Manager and Comptroller to ensure that only the program assets requested are listed.

Condition 2: CPA will input the asset details to include who holds title and use of asset into the fixed asset system. CPA will update the Equipment Details Form to include title and use of assets.

Condition 3: CPA will write off the asset from its fixed asset system.



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CPA has developed the following corrective action plan for this finding:

1. Establish Standard Operating Procedures (SOP) for Equipment Management

CPA has established Equipment Management SOPs that were implemented and effective on June 30, 2022. The SOPs detail the equipment management requirements, details, and responsibilities. In addition, the SOPs include an annual mandatory schedule for inventory, disposals, and reconciliation.

With the completion of the inventory reconciliation in June 2023, the Procurement Department sent out the fixed asset listings to each respective department. The Department Heads are reviewing their equipment listings to verify the accuracy of equipment details, provide additional identifying information and confirm existence of all assets listed. The Department Heads will be providing monthly updates to the Procurement Department for entry into the Equipment Management System.

2. Implement Standard Equipment Management Forms

Standard procurement forms have been developed to establish additional controls and reviews for all equipment. These standard forms include requirements such as identifying details for all fixed assets.

3. Develop a Training Plan for Equipment Management Procedures

CPA developed an Equipment Management training plan that was implemented on June 17, 2022. The training plan includes annual requirements for training on equipment management and compliance requirements. The training is based on the established SOPs and best practices and is mandatory for all staff involved in equipment management.

4. Internal Auditor Position

An internal auditor position was created on May 16, 2022 and hired on August 29, 2022. Part of the internal auditor's responsibilities include reviewing inventory records and equipment management files for compliance. The internal auditor reports directly to the CPA Board of Director and provides monthly reports. The internal auditor monthly reports are used as a tool to identify areas of equipment management non-compliance for immediate correction.

Proposed Completion Date: FY 2023



Finding No 2022-004

Name of Contact Person: Christopher S. Tenorio, Executive Director

Corrective Action:

CPA disagrees with this finding. On October 1, 2021, CPA wrote a letter to the Office of the Governor, requesting for funds in the amount of \$990,000 to provide premium pay to all CPA employees. The letter requested a one-time payment for all employees and included an exhibit with the number of employees to be issued the requested premium pay. On November 18, 2021, the CNMI government transferred \$990,000 to CPA via ACH payment. There were no terms, conditions, or communication informing CPA to justify premium pay for exempt employees. CPA proceeded to issue the premium pay to all employees in November 2021. In May 2022, the Department of Finance provided terms and conditions for the use of funds issued on November 2021.

CPA has reached out to the CNMI Department of Finance to provide the point of contact for a program determination on the finding and questioned costs. CPA will provide its justification for premium pay in compliance with the Treasury Final Rule.

Proposed Completion Date: September 30, 2023

Finding No 2022-005

Name of Contact Person: Skye Lynn L. Aldan Hofschneider, Comptroller

Corrective Action:

CPA agrees with the finding. CPA has submitted all required quarterly reports and will continue to submit the required reports timely.

Proposed Completion Date: July 31, 2023



**SUMMARY OF PRIOR YEAR AUDIT FINDINGS: FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2022**

Ref. Number	Assistance Listing No.	Finding	Questioned Costs	Status	Corrective Action Plan	Contact Person	QC Resolved	\$Amt Bal Carry Forward
Fiscal Year 2021								
2021-001	N/A	Local Noncompliance - Procurement	-	Monitoring Ongoing	<ul style="list-style-type: none"> On August 2022, CPA implemented Standard Operating Procedures (SOP) for Procurement. The SOP requires annual training to be conducted for staff involved in Procurement. The SOPs include flowcharts and standard forms for Procurement compliance checks. The Internal Auditor completes monthly reports for the review of Procurement to determine compliance. Findings and recommendations from the Internal Auditor are resolved and implemented monthly. On August 2022, CPA implemented Standard Operating Procedures (SOP) for Equipment Management. The SOPs include an annual schedule for physical inventory, identification of assets for decommission, disposal of assets, and asset reconciliation. CPA implemented the SOP annual schedule in FY 2023. The SOP requires annual training to be conducted for staff involved in equipment management. 	Skye Aldan Hofschneider, Comptroller	-	-
2021-002	N/A	Capital Assets	-	Monitoring Ongoing	<ul style="list-style-type: none"> The SOPs include standard forms for the data collection of fixed assets, the forms include information required to be entered into the fixed asset system to properly identify assets during inventory. The Internal Auditor completes monthly reports for the review and sample testing of inventory to determine compliance. Findings and recommendations from the Internal Auditor are resolved and implemented monthly. 	Skye Aldan Hofschneider, Comptroller	-	-
2021-002	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>
Fiscal Year 2020								
2020-001	N/A	Nonpayroll Expenditures	\$ -	Monitoring Ongoing	<ul style="list-style-type: none"> CPA updated documents from the vendor to reflect current prices. CPA entered the adjustments to reclassify amounts in the periods incurred. The contract vendor has been required to provide updated documentation when price changes occur. CPA resolved the items cited. Monitoring is ongoing to prevent future occurrences. 	Skye Aldan Hofschneider, Comptroller	\$ -	\$ -
2020-002	N/A	Local NonCompliance - Procurement	\$ -	Monitoring Ongoing	See corrective action plan for Finding No. 2021-001	Skye Aldan Hofschneider, Comptroller	\$ -	\$ -
2020-003	N/A	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
2020-003	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
2020-004	20.106	Reporting	-	Monitoring Ongoing	The SF-425 reports were amended to include the grant amendment amount and to reflect the closeout recipient share.	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>
Fiscal Year 2019								
2019-001	N/A	Local NonCompliance - Procurement	\$ -	Monitoring Ongoing	See corrective action plan for Finding No. 2021-001	Skye Aldan Hofschneider, Comptroller	\$ -	\$ -
2019-002	N/A	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
2019-002	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>
Fiscal Year 2018								
2018-002	N/A	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
2018-002	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>
Fiscal Year 2017								
2017-001	N/A	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2020-002	Skye Aldan Hofschneider, Comptroller	-	-
2017-001	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>



**SUMMARY OF PRIOR YEAR AUDIT FINDINGS: FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2022**

Ref. Number	Assistance Listing No.	Finding	Questioned Costs	Status	Corrective Action Plan	Contact Person	QC Resolved	\$Amt Bal Carry Forward
Fiscal Year 2016								
2016-001	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>
Fiscal Year 2015								
2015-001	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>
Fiscal Year 2014								
2014-002	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>
Fiscal Year 2013								
2013-001	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>
Fiscal Year 2012								
2012-001	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>
Fiscal Year 2011								
2011-002	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>
Fiscal Year 2010								
2010-002	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>
Fiscal Year 2009								
2009-003	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>
Fiscal Year 2008								
2008-006	20.106	Equipment and Real Property Management	-	Monitoring Ongoing	See corrective action plan for Finding No. 2021-002	Skye Aldan Hofschneider, Comptroller	-	-
			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>
Summary for FY 2008 thru 2021			<u>\$ -</u>				<u>\$ -</u>	<u>\$ -</u>