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

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

YEAR ENDED SEPTEMBER 30, 2009

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

Deloitte & Touche LLC
P.O. Box 500308
Saipan, MP 96950-0308
USA

Tel: +1 670 322 7337/0860/0861
Fax: +1 670 322 7340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Ports Authority:

We have audited the accompanying statements of net assets of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of CPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CPA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commonwealth Ports Authority as of September 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth Ports Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Commonwealth Ports Authority's basic financial statements. The Combining Statement of Net Assets, Combining Statement of Revenues, Expenses and Changes in Net Assets and Combining Statement of Cash Flows as of and for the year ended September 30, 2009 (pages 37 through 39) are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth Ports Authority's management. This supplementary information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2010, on our consideration of internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

August 25, 2010

COMMONWEALTH PORTS AUTHORITY
Main Office: SAIPAN INTERNATIONAL AIRPORT
P.O. BOX 501055 • SAIPAN • MP 96950-1055
Phone: (1-670) 664-3500 /1 FAX: (1-670) 234-5962
E-Mail Address: cpa.admin@saipan.com
SEAPORT: Phone (1-670) 664-3550 /1 FAX (1-670) 322-4710
E-Mail Address: cpa.seaport@saipan.com

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the Commonwealth Ports Authority's (herein referred to as "CPA") audit report presents our discussion and analysis of CPA's financial performance during the fiscal year ended September 30, 2009. Please read it in conjunction with the more detailed information contained within the accompanying financial statements. The nationally recognized accounting firm of Deloitte & Touche LLC has issued an unqualified audit opinion.

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 140 employees on Saipan, 24 employees on Rota and 28 employees on Tinian.

The following discussion and analysis of CPA's activities and financial performance provides an introduction to the financial statements for the fiscal year ended September 30, 2009, with selected comparative information for the fiscal years ended September 30, 2008 and 2007.

The notes to the financial statements are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt 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 footnotes of the accompanying audited financial statements.

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

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

PORT OF SAIPAN
P.O. Box 501055, Saipan MP 96950-1055

ROTA INTERNATIONAL AIRPORT / SEAPORT
P.O. Box 561, Rota MP 96951

WEST TINIAN AIRPORT / SEAPORT
San Jose Village, Tinian MP 96952

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how net assets changed during the fiscal year. All changes in net assets 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 cash receipts and cash payments of CPA during the fiscal year and its ability to generate net cash flows, its ability to meet its obligations as they come due and its needs for external financing.

FINANCIAL HIGHLIGHTS

Total assets for the airport and seaport operations combined in FY2009 increased by 0.14% or $317,430 from $223,159,433 in FY2008 to $223,476,863.

Net assets for the airport and seaport operations combined in FY2009 increased by 3% or $4,011,947 from $156,050,646 in FY2008 to $160,062,593. Net assets represent the amount that total assets exceed total liabilities.

In FY2009, airport enplanement (air passenger departures) declined by 9% and deplanement (air passenger arrivals) declined by 7% from FY 2008 due to the declining trend of passenger arrivals to the CNMI.

In FY 2009, seaport inbound cargo decreased by 19% and outbound cargo decreased by 51% from FY2008 due to the demise of the garment industry and the general recession of economic activity.

Operating revenues for the airport and seaport operations combined in FY2009 increased by 26% or $3,592,329 from $13,799,457 in FY2008 to $17,391,786 in FY2009. Operating revenues for the Airport Division in FY2009 increased by 29% or $2,498,923 from $8,630,320 in FY2008 to $11,129,243. Operating revenues for the Seaport Division in FY2009 increased by 21% or $1,093,406 from $5,169,137 in FY2008 to $6,262,543.

Operating expenses (excluding depreciation and amortization) for the airport and seaport operations combined in FY2009 decreased by 3% or $402,890 from $12,787,440 in FY2008 to $12,384,550, due to a reduction in operating costs from austerity measures.

The Airport Division was able to increase its operating revenue by $2.5 million due to a rate increase in 2008. Moreover, it was able to avoid noncompliance with its 1998 Bond Indenture Agreement (Agreement) for FY2009. In order to maintain compliance with the Agreement, CPA hired a consultant to make recommendations in order to comply with this requirement in FY2010. Quarterly monitoring procedures were put into effect for FY2010 as well as austerity measures for personnel and employee benefits. CPA expects to be in compliance with the Agreement for FY2010.

The Seaport Division performed a rate study in 2008, which resulted in a tariff increase in March 2009. This was done 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 FY2009 by $1.1 million, which enabled the Seaport Division to be in compliance with its 1998 and 2005 Bond Indenture Agreement (the Agreement). The consultant hired to monitor the Airport revenues and expenses is also performing the same tasks for the Seaport. Also, the Seaport Division adopted the same austerity measures employed at the Airport Division for FY2010. CPA expects the Seaport Division to be in compliance with the Agreement for FY2010.

Statements of Net Assets

	2009	2008	2007
Assets			
Current assets:			
Cash	$ 3,323,417	$ 3,910,939	$ 9,678,551
Receivables	8,570,427	6,169,781	9,523,245
Prepaid expenses	85,312	87,373	97,369
Investments, restricted for construction and debt service purposes	16,006,012	17,122,945	18,729,555
Total current assets	**27,985,168**	**27,291,038**	**38,028,720**
Noncurrent assets:			
Deferred bond issue costs	1,394,362	1,461,297	1,528,232
Receivable from related party, net	2,642,340	3,659,613	4,700,947
Capital assets, net	191,454,993	190,747,485	183,344,112
Total noncurrent assets	**195,491,695**	**195,868,395**	**189,573,291**
	$ 223,476,863	**$ 223,159,433**	**$ 227,602,011**
Liabilities and Net Assets			
Current liabilities:			
Revenue bonds payable, current portion	$ 1,395,000	$ 2,330,000	$ 1,265,000
Note payable to related party, current portion	87,640	-	1,281,659
Contractors payable	3,391,103	3,549,673	9,029,167
Trade and other payables	199,637	278,657	224,700
Due to related parties	1,884,561	2,184,935	2,524,210
Accrued expenses	2,289,296	3,273,680	2,362,501
Deferred income	-	5,625	5,625
Compensated absences, current portion	279,092	275,621	242,557
Total current liabilities	**9,526,329**	**11,898,191**	**16,935,419**
Accrued interest payable	450,085	304,994	-
Compensated absences, net of current portion	233,796	262,334	505,246
Revenue bonds payable, net of current portion	47,488,090	48,839,658	51,126,227
Note payable to related party	5,715,970	5,803,610	4,745,056
Total liabilities	**63,414,270**	**67,108,787**	**73,311,948**
Net assets:			
Invested in capital assets, net of related debt	138,162,655	135,235,514	126,454,402
Restricted	16,006,012	17,122,945	18,729,555
Unrestricted	5,893,926	3,692,187	9,106,106
Total net assets	**160,062,593**	**156,050,646**	**154,290,063**
	$ 223,476,863	**$ 223,159,433**	**$ 227,602,011**

Statements of Revenues, Expenses and Changes in Net Assets

	2009	2008	2007
Operating revenues:			
Aviation fees	$ 6,501,451	$ 4,120,192	$ 5,866,390
Concession and lease income	4,646,384	4,476,494	4,213,807
Seaport fees	4,420,940	3,532,991	3,870,641
Other	1,823,011	1,669,780	1,202,062
	17,391,786	13,799,457	15,152,900
Less bad debts	(14,291)	(451,229)	(107,852)
Operating revenues, net	**17,377,495**	**13,348,228**	**15,045,048**
Operating expenses:			
Depreciation and amortization	11,479,589	9,690,222	10,607,952
Salaries and wages	5,157,000	4,982,248	5,372,951
Employee benefits	1,657,597	2,024,494	2,439,580

Statements of Revenues, Expenses and Changes in Net Assets, Continued

	2009	2008	2007
Operating expenses, continued:			
Insurance	1,630,022	1,802,510	2,036,874
Contractual services	981,942	759,264	736,042
Utilities	797,892	881,460	597,068
Repairs and maintenance	469,686	350,245	247,852
Supplies	404,144	244,900	358,138
Professional fees	268,399	225,657	344,622
Travel	58,287	119,127	176,011
Training	42,317	86,457	112,987
Promotion and advertising	36,481	35,572	38,546
Other	880,783	1,275,506	888,158
Total operating expenses	**23,864,139**	**22,477,662**	**23,956,781**
Operating loss	**(6,486,644)**	**(9,129,434)**	**(8,911,733)**
Non-operating revenues (expenses):			
Passenger facility charges	1,742,877	2,160,681	1,925,589
Other grant revenue and contributions	601,875	687,432	-
Interest income	558,214	493,397	1,089,631
Interest expense	(3,462,247)	(2,974,460)	(3,669,364)
Other expense	-	(1,248,266)	-
Amortization of bond issue costs	(66,935)	(66,935)	(66,935)
Total non-operating revenues (expenses), net	**(626,216)**	**(948,151)**	**(721,079)**
Loss before capital contributions	**(7,112,860)**	**(10,077,585)**	**(9,632,812)**
Capital contributions	11,124,807	11,838,168	31,686,749
Changes in net assets	**4,011,947**	**1,760,583**	**22,053,937**
Net assets at beginning of year	156,050,646	154,290,063	132,236,126
Net assets at end of year	**$ 160,062,593**	**$ 156,050,646**	**$ 154,290,063**

Statements of Cash Flows

	2009	2008	2007
Cash flows from operating activities:			
Cash received from customers	$ 17,233,828	$ 14,777,981	$ 12,435,374
Cash payments to suppliers for goods and services	(6,640,176)	(4,822,896)	(5,308,061)
Cash payment to employees for services	(6,839,664)	(7,216,590)	(7,705,680)
Net cash provided by (used for) operating activities	**3,753,988**	**2,738,495**	**(578,367)**
Cash flow from capital and related financing activities:			
Acquisition of capital assets	(12,345,667)	(22,041,522)	(32,754,248)
Capital and other contributions received	10,189,857	14,225,428	30,021,777
Passenger facility charge receipts	1,742,877	2,160,681	1,925,589
Principal paid on revenue bond maturities	(2,330,000)	(1,265,000)	(1,050,000)
Payments on notes to related party	-	(223,105)	(649,838)
Interest paid on revenue bonds and note payable to related party	(3,273,724)	(3,462,596)	(3,627,707)
Net cash used for capital and related financing activities	**(6,016,657)**	**(10,606,114)**	**(6,134,427)**
Cash flows from investing activities:			
Net change in restricted investments	1,116,933	1,606,610	3,843,399
Interest income	558,214	493,397	1,089,631
Net cash provided by investing activities	**1,675,147**	**2,100,007**	**4,933,030**
Net change in cash and cash equivalents	**(587,522)**	**(5,767,612)**	**(1,779,764)**
Cash and cash equivalents at beginning of year	3,910,939	9,678,551	11,458,315
Cash and cash equivalents at end of year	**$ 3,323,417**	**$ 3,910,939**	**$ 9,678,551**

CAPITAL ASSETS

At September 30, 2009, CPA had $191,454,993 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 $707,508 or 0.4% over last year.

	2009	2008	2007
Runway and improvements	$ 92,032,286	$ 92,331,622	$ 69,076,791
Other improvements	25,396,866	16,258,401	16,215,774
Terminal facilities and equipment	103,920,048	100,721,909	79,202,607
Harbor facilities	63,626,755	62,101,850	62,101,850
Grounds maintenance and shop equipment	509,692	509,692	509,692
Fire and rescue equipment	11,521,619	11,506,180	11,477,584
Office furniture and fixtures	997,181	905,497	871,010
General transportation	1,044,811	1,010,798	929,612
Other	2,394,591	2,394,591	2,392,367
	301,443,849	287,740,540	242,777,287
Less accumulated depreciation	(139,026,978)	(127,547,389)	(117,828,380)
Total capital assets being depreciated	162,416,871	160,193,151	124,948,907
Construction in progress	28,573,693	30,089,905	57,930,776
Land	464,429	464,429	464,429
Total capital assets, net	$ 191,454,993	$ 190,747,485	$ 183,344,112

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

RESTRICTED INVESTMENTS

Restricted investments for Airport and Seaport construction and debt service purposes represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds deposited with the Trustee. The balances as of September 30, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Airport			
Bond Reserve Fund	$ 1,561,455	$ 1,555,389	$ 1,525,233
Bond Fund	301,639	284,982	262,205
Maintenance and Operation	659,972	464,713	404,586
Revenue Fund	723	448,588	-
Optional Redemption Fund	12,087	-	-
Construction Fund	-	998,519	979,159
	2,535,876	3,752,191	3,171,183
Seaport			
Bond Reserve Fund	3,480,131	3,478,814	3,489,728
Supplemental Reserve Fund	8,037,480	8,038,346	8,059,119
Reimbursement Fund	5,806	5,806	5,693
Bond Fund	648,748	489,094	448,539
Maintenance and Operation	756,957	493,610	344,926
Construction Fund	540,204	557,219	3,101,624
Interest	-	69,468	108,743
Revenue Fund	810	238,397	-
	13,470,136	13,370,754	15,558,372
Total	$ 16,006,012	$ 17,122,945	$ 18,729,555

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

LONG-TERM DEBT

1998 Airport Revenue Bonds

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

Payments for the Airport bond are current. The current portion of the Airport bond principal is $445,000. The long-term portion of the bond balance as of September 30, 2009 is $14,930,000.

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 netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $688,620 and an increase of $7,616,151 in future debt service payments.

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 2028.

Payments for the 1998 Seaport bond are current. The current portion of the 1998 Seaport bond principal is $785,000. The long-term portion of the bond balance as of September 30, 2009 is $26,900,000.

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 netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $1,724,777 and a decrease of $6,983,345 in future debt service payments.

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 $165,000. The long-term portion of the bond balance as of September 30, 2009 is $6,755,000.

Note Payable to the Commonwealth Development Authority (CDA)

As of September 30, 2009, CPA has a promissory note of $5,803,610 due to CDA (a component unit of the CNMI), with interest at 2.5% per annum and a maturity date of June 15, 2030. Principal and interest payments in the amount of $31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling $450,085 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first and, accordingly, is presented as long-term in the accompanying financial statements. The current portion of the note is $87,640. The long-term portion of the note as of September 30, 2009 is $5,715,970. The CDA obligation is subordinate to CPA's obligation for the Seaport bonds.

LONG-TERM DEBT, CONTINUED

A summary of CPA's long-term debt balances as of September 30, 2009, 2008 and 2007 is as follows:

	2009	2008	2007
1998 Senior Series A Bonds - Airport	$ 15,375,000	$ 16,810,000	$ 17,230,000
1998 Senior Series A Bonds - Seaport	$ 27,685,000	$ 28,428,000	$ 29,120,000
2005 Senior Series A Bonds - Seaport	$ 6,920,000	$ 7,075,000	$ 7,225,000
Note payable to CDA	$ 5,803,610	$ 5,803,610	$ 6,026,715

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

REVENUE AND EXPENSE ANALYSIS

Airport and Seaport Combined Operating Revenues

	2009	2008	2007
Airport	$ 11,129,243	$ 8,630,320	$ 9,805,327
Seaport	6,262,543	5,169,137	5,347,573
	$17,391,786	$ 13,799,457	$ 15,152,900

The Airport and Seaport Divisions have been experiencing a declining revenue tread in recent years due to the reduction of their revenue generating base. For the Airport, the traffic has been declining due to the loss of signatory airlines (Continental Airlines and Japan Airlines) being replaced with airlines operating charter flights on an as-needed basis. Also, airline incentive programs did not provide the intended results and actually reduced aviation revenues. The loss of revenue-generating traffic has a negative effect on the non-aviation revenue as the concessionaires lose revenue causing a decline in the percentage rent to CPA. Likewise, with the departure of the garment industry, the Seaport gross revenue tons have declined causing a permanent loss of this important revenue base.

To deal with these trends, the Board of Directors increased the fees for the Airport in June 2008 and the tariff for the Seaport in March 2009. This has had a major impact on stabilizing each Division's revenues for 2009 and allowing for revenue growth. While this increase of revenues for the Seaport was sufficient to allow for compliance with the bond indenture, it was not sufficient to allow the Airport to be in compliance with the bond indenture. Due the declining arrivals from Japan and Korea, the scheduled airlines have been cutting their seat capacity and suspending flights during slow periods of the year. As a result, management did not believe that another increase in fees was appropriate. Accordingly, they implemented strict austerity measures for 2010 to reduce work hours and employee benefits. Additionally, they hired an independent consultant to monitor the 2010 revenues and expenses in order to make adjustments as needed to comply with the Airport bond indenture.

Airport and Seaport Combined Operating Expenses

	2009	2008	2007
Airport			
Personnel expenses	$ 6,139,107	$ 5,924,474	$ 6,678,270
Maintenance and operations expenses	4,183,403	4,309,587	3,989,851
	10,322,510	10,234,061	10,668,121
Seaport			
Personnel expenses	675,490	1,082,268	1,134,261
Maintenance and operations expenses	1,386,550	1,471,111	1,546,477
	2,062,040	2,553,379	2,680,708
Combined operating expenses	$ 12,384,550	$ 12,787,440	$ 13,348,829

FY2009 BOND INDENTURE COMPLIANCE

FY2009 Bond/Debt Ratio Noncompliance

	Airport			Seaport		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**
Required revenues for bond compliance	$ 12,188,947	$ 12,287,723	$ 12,631,243	$ 6,170,156	$ 6,727,176	$ 6,425,600
Actual revenues collected:						
Revenues and other income	11,129,243	8,630,320	9,805,327	6,262,543	5,169,137	5,347,573
Other grant revenue and contributions	601,875	-	-	-	-	-
Interest income	294,046	188,101	240,140	264,168	305,296	849,491
Passenger facility charge	445,439	446,049	446,190	-	-	-
	12,470,603	9,264,470	10,491,657	6,526,711	5,474,433	6,197,064
Variance (noncompliance)	$ 281,656	$ (3,023,253)	$ (2,139,586)	$ 356,555	$ (1,252,743)	$ (228,536)

As illustrated in the above table, CPA generated sufficient revenues to meet its Bond Indenture requirements. As stated previously, the FY2010 revenues and expenses are being monitored on a quarterly basis so that steps can be taken to ensure that there is compliance. Management has a current policy to reduce work hours and employee benefits in order to achieve and maintain compliance. The results from this activity are being used to construct a realistic budget for FY2011. It is management's intention to control expenses in a comprehensive manner to ensure there is a proper relationship to operating revenues. During fiscal year 2009, management has designated other grant revenues and contributions as part of gross revenues for purposes of calculating the debt coverage ratios.

REVENUE-BASED STATISTICS

AIRPORT DIVISION

Saipan	**Enplaned Passengers**	**Deplaned Passengers**	**Landing Weights**
FY 2007	473,249	470,013	728,787,113
FY 2008	460,933	460,437	714,481,700
FY 2009	418,296	425,982	737,391,020
FY 2010 Forecast	458,499	455,820	748,190,406
Rota			
FY 2007	20,326	19,409	47,900,020
FY 2008	19,048	18,589	46,679,420
FY 2009	19,663	20,254	51,269,310
FY 2010 Forecast	21,694	21,618	56,190,800
Tinian			
FY 2007	35,427	30,258	33,421,900
FY 2008	31,020	29,263	30,567,800
FY 2009	24,220	21,226	30,172,500
FY 2010 Forecast	32,270	23,374	45,095,900
All Airports			
FY 2007	529,002	519,680	810,109,033
FY 2008	511,001	508,289	791,728,920
FY 2009	462,179	467,462	818,832,830
FY 2010 Forecast	512,463	500,812	849,477,106

REVENUE-BASED STATISTICS, CONTINUED

SEAPORT DIVISION

	Revenue Tons		
Saipan	**Inbound**	**Outbound**	**Total**
2007	462,233	99,855	562,088
2008	389,338	44,834	434,172
2009	316,883	21,997	338,880
2010 - Estimate	331,506	16,191	347,697
Rota			
2007	12,090	1,103	13,193
2008	10,406	1,761	12,167
2009	7,566	2,291	9,857
2010 - Estimate	10,312	310	10,622
Tinian			
2007	23,174	2,373	25,547
2008	33,790	3,448	37,238
2009	15,979	736	16,715
2010 - Estimate	13,065	2,410	15,475

ECONOMIC OUTLOOK

The Airport 2010 combined revenue forecast indicates an estimated decrease of $643,800 or about 4% from $17,391,786 for 2009. The Airport aviation traffic for 2010 is forecasted to show a 6% to 8% increase. The Seaport gross revenue tons for 2010 is forecasted to show a 3% increase. Overall, revenues are projected to approximate the amounts in 2009. Management will be forced to continue to closely monitor the Airport and Seaport operating expenses in order to keep them at a level to comply with their respective Bond Indentures. Due to the recent fee/rate increases, management does not believe additional increases can be absorbed, especially with the economic recession trends. Strict controls over operating expenses is the most practical approach toward achieving bond compliance.

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. The Management's Discussion and Analysis for the year ended September 30, 2008 is set forth in the report on the audit of CPA's financial statements, which is dated March 3, 2010. That Discussion and Analysis explains the major factors impacting the 2008 financial statements. If you have questions about this report or the 2008 or 2007 reports or need additional financial information, contact Mr. Derek T. Sasamoto, Comptroller, P.O. Box 501055, Saipan, MP 96950-1055, or call (670) 237-6500 or email at dsasamoto@cpa.gov.mp.

COMMONWEALTH PORTS AUTHORITY
Statements of Net Assets

September 30, 2009 and 2008

ASSETS	2009	2008
Current assets:		
Cash and cash equivalents	$ 3,323,417	$ 3,910,939
Receivables:		
Grantor agencies	3,059,226	1,522,401
Operations, net	3,939,412	3,730,575
Related parties	1,559,377	855,878
Officers and employees	12,412	60,927
Prepaid expenses	85,312	87,373
Investments, restricted for construction and debt service purposes	16,006,012	17,122,945
Total current assets	27,985,168	27,291,038
Noncurrent assets:		
Deferred bond issue costs	1,394,362	1,461,297
Receivable from related party, net	2,642,340	3,659,613
Capital assets, net	191,454,993	190,747,485
Total noncurrent assets	195,491,695	195,868,395
	$ 223,476,863	$ 223,159,433
LIABILITIES AND NET ASSETS		
Current liabilities:		
Revenue bonds payable, current portion	$ 1,395,000	$ 2,330,000
Note payable to related party, current portion	87,640	-
Contractors payable	3,391,103	3,549,673
Trade and other payables	199,637	278,657
Due to related parties	1,884,561	2,184,935
Accrued expenses	2,289,296	3,273,680
Deferred income	-	5,625
Compensated absences, current portion	279,092	275,621
Total current liabilities	9,526,329	11,898,191
Accrued interest payable	450,085	304,994
Compensated absences, net of current portion	233,796	262,334
Revenue bonds payable, net of current portion	47,488,090	48,839,658
Note payable to related party, net of current portion	5,715,970	5,803,610
Total liabilities	63,414,270	67,108,787
Commitment and contingencies		
Net assets:		
Invested in capital assets, net of related debt	138,162,655	135,235,514
Restricted	16,006,012	17,122,945
Unrestricted	5,893,926	3,692,187
Total net assets	160,062,593	156,050,646
	$ 223,476,863	$ 223,159,433

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008

	2009	2008
Operating revenues:		
Aviation fees	$ 6,501,451	$ 4,120,192
Concession and lease income	4,646,384	4,476,494
Seaport fees	4,420,940	3,532,991
Other	1,823,011	1,669,780
	17,391,786	13,799,457
Less bad debts	(14,291)	(451,229)
Operating revenues, net	17,377,495	13,348,228
Operating expenses:		
Depreciation and amortization	11,479,589	9,690,222
Salaries and wages	5,157,000	4,982,248
Employee benefits	1,657,597	2,024,494
Insurance	1,630,022	1,802,510
Contractual services	981,942	759,264
Utilities	797,892	881,460
Repairs and maintenance	469,686	350,245
Supplies	404,144	244,900
Professional fees	268,399	225,657
Travel	58,287	119,127
Training	42,317	86,457
Promotion and advertising	36,481	35,572
Other	880,783	1,275,506
Total operating expenses	23,864,139	22,477,662
Operating loss	(6,486,644)	(9,129,434)
Non-operating revenues (expenses):		
Passenger facility charges	1,742,877	2,160,681
Other grant revenue and contributions	601,875	687,432
Interest income	558,214	493,397
Interest expense	(3,462,247)	(2,974,460)
Other expense	-	(1,248,266)
Amortization of bond issue costs	(66,935)	(66,935)
Total non-operating revenues (expenses), net	(626,216)	(948,151)
Loss before capital contributions	(7,112,860)	(10,077,585)
Capital contributions	11,124,807	11,838,168
Change in net assets	4,011,947	1,760,583
Net assets at beginning of year	156,050,646	154,290,063
Net assets at end of year	$ 160,062,593	$ 156,050,646

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	$ 17,233,828	$ 14,777,981
Cash payments to suppliers for goods and services	(6,640,176)	(4,822,896)
Cash payments to employees for services	(6,839,664)	(7,216,590)
Net cash provided by operating activities	3,753,988	2,738,495
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(12,345,667)	(22,041,522)
Capital and other contributions received	10,189,857	14,225,428
Passenger facility charge receipts	1,742,877	2,160,681
Principal paid on revenue bond maturities	(2,330,000)	(1,265,000)
Payments on note payable to related party	-	(223,105)
Interest paid on revenue bonds and note payable to related party	(3,273,724)	(3,462,596)
Net cash used for capital and related financing activities	(6,016,657)	(10,606,114)
Cash flows from investing activities:		
Net change in restricted investments	1,116,933	1,606,610
Interest income	558,214	493,397
Net cash provided by investing activities	1,675,147	2,100,007
Net change in cash and cash equivalents	(587,522)	(5,767,612)
Cash and cash equivalents at beginning of year	3,910,939	9,678,551
Cash and cash equivalents at end of year	$ 3,323,417	$ 3,910,939
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (6,486,644)	$ (9,129,434)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	11,479,589	9,690,222
Bad debts	14,291	451,229
(Increase) decrease in assets:		
Receivables - operations	(223,128)	762,696
Receivables - officers and employees	48,515	(5,858)
Prepaid expenses	2,061	9,996
Receivables - related parties	313,774	238,637
Increase (decrease) in liabilities:		
Accounts payable - trade and other	(79,020)	53,957
Accounts payable - related parties	(300,374)	(339,275)
Accrued expenses	(984,384)	1,216,173
Deferred income	(5,625)	-
Compensated absences	(25,067)	(209,848)
Net cash provided by operating activities	$ 3,753,988	$ 2,738,495

See accompanying notes to financial statements.

(1) Organization

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

(2) Summary of Significant Accounting Policies

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

Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included in the statements of net assets. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net assets. The accrual basis of accounting is utilized for proprietary funds. Under this method, revenues are recorded when earned and expenses recorded at the time liabilities are incurred.

Budgets

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

Concentrations of Credit Risk

Financial instruments which potentially subject CPA to concentrations of credit risk consist principally of cash demand deposits, investments, receivables and receivables from related party.

At September 30, 2009 and 2008, 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, 2009 and 2008, concentrations of credit risk result from receivables from significant customers and receivable from a related party which represent 44% and 62%, respectively, of total receivables. Management assesses the risk of loss and provides an allowance for doubtful accounts to compensate for known credit risk.

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

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

Capitalization of Interest

CPA capitalizes interest in order to recognize all costs associated with the non-contributed airport and seaport construction projects based on CPA's weighted average borrowing rate. The amount of interest eligible for capitalization was $-0- and $531,567 at September 30, 2009 and 2008, respectively. No interest is capitalized for projects financed with grant proceeds or Passenger Facility Charges.

Investments

CPA values its investments based on fair values in accordance with GASB Statement No. 31. CNMI Public Law 2-48, Section 31, requires that all CPA investments be guaranteed by the CNMI Government or U.S. Government, or be invested in direct obligations, or participation certificates, guaranteed by the U.S. Government.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated at an amount that management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through an allowance for doubtful accounts charged to bad debts expense.

Capital Assets

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

Bond Discounts and Issuance Costs

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

Passenger Facility Charges

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

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

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

The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. CPA has complied with GASB Statement No. 45 by recording OPEB expense based on the statutorial determined contribution rate of the Fund. It is the understanding of the management of CPA that the statutorial determined contribution rate of the Fund incorporates both the pension liability and OPEB liability. GASB Statement No. 45 also requires detailed disclosure of information related to the OPEB plan and CPA management was unable to obtain this information from the Fund financial report. CPA management is unable to obtain the required disclosures and is of the opinion that such information must be obtained from the Fund. It is the position of the management of CPA that the Fund is solely responsible for disclosure of OPEB information.

Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund (NMIRF) Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19 and 11-9.

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. CPA is required to contribute at an actuarially determined rate. The actuarially determined contribution rate for the fiscal year ended September 30, 2009 is 51.0578% of covered payroll based on an actuarial valuation as of October 1, 2008 issued in May 2010. The actuarially determined contribution rate for the fiscal year ended September 30, 2008 is 29.9665% of covered payroll based on an actuarial valuation as of October 1, 2007 issued in December 2008. The established statutory rate at September 30, 2009 and 2008 is 37.3909% and 36.6667%, respectively, of covered payroll. CPA's recorded DB contributions to the Fund for the years ended September 30, 2009, 2008 and 2007 were $1,474,731, $1,818,905 and $1,976,243, respectively, equal to the required contributions for each year.

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan (DB Plan), Continued

Pursuant to Public Law No. 6-41, codified in 1CMC § 8362, any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution. At September 30, 2009, the Fund assessed accumulated penalties of $242,627. CPA has recorded a liability of $286,706 at September 30, 2009.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. CPA is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. CPA's recorded DC contributions for the years ended September 30, 2009, 2008 and 2007 were $39,374, $3,303 and $-0-, respectively, equal to the required contributions for each year.

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

Net Assets

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

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

- Restricted:

    - Nonexpendable - Net assets subject to externally imposed stipulations that CPA maintain them permanently. For the years ended September 30, 2009 and 2008, CPA does not have nonexpendable restricted net assets.

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

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

(2) Summary of Significant Accounting Policies, Continued

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated vacation leave liability as of September 30, 2009 and 2008 is $512,888 and $537,955, respectively.

Operating and Non-Operating Revenues and Expenses

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

New Accounting Standards

During fiscal year 2009, CPA implemented the following pronouncements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation.

- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which improves financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source.

- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations, and subsequent events.

The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPA.

In December 2008, GASB issued Technical Bulletin No. 2008-1, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, which clarifies the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* for calculating the annual required contribution (ARC) adjustment. The provisions of this statement are effective for periods beginning after December 15, 2008. Management has not evaluated the impact that the implementation of this statement will have a material effect on the financial statements of CPA.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the impact that the implementation of this statement will have on the financial statements of CPA.

Estimates

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

Reclassification

Certain 2008 balances in the accompanying financial statements have been reclassified to conform to the 2009 presentation.

(3) Deposits and Investments

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

Deposits

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

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

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

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

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

As of September 30, 2009 and 2008, total cash and cash equivalents were $3,323,417 and $3,910,939, respectively, and the corresponding bank balances were $3,360,187 and $4,507,931, respectively. Of the bank balance amounts, $3,360,187 and $3,411,380, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $-0- and $1,096,551, respectively, represent short-term investments held and administered by CPA's trustees in accordance with various trust agreements. Based on negotiated trust and custody contracts, all of these deposits were held in CPA's name by CPA's custodial financial institutions at September 30, 2009 and 2008. As of September 30, 2009 and 2008, bank deposits in the amount of $250,000 and $100,000, respectively, were FDIC insured. CNMI law does not require component unit funds to be collateralized and thus CPA's funds, in excess of FDIC insurance, are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments

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

(3) Deposits and Investments, Continued

Investments, Continued

	2009	2008
Airport Division		
Bond Reserve Fund	$ 1,561,455	$ 1,555,389
Construction Fund	-	998,519
Bond Fund	301,639	284,982
Maintenance and Operation	659,972	464,713
Revenue Fund	723	448,588
Optional Redemption Fund	12,087	-
	2,535,876	3,752,191
Seaport Division		
Bond Reserve Fund	3,480,131	3,478,814
Supplemental Reserve Fund	8,037,480	8,038,346
Reimbursement Fund	5,806	5,806
Bond Fund	648,748	489,094
Maintenance and Operation	756,957	493,610
Construction Fund	540,204	557,219
Interest Fund	-	69,468
Revenue Fund	810	238,397
	13,470,136	13,370,754
	$ 16,006,012	$ 17,122,945

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

Category 1 Investments that are insured or registered, or securities held by CPA or its agent in CPA's name;

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in CPA's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in CPA's name.

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

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

(3) Deposits and Investments, Continued

Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, CPA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. CPA's investments are held and administered by CPA's trustees in accordance with various trustee agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held by the counterparty, or by its trust department or agent but not in CPA's name by CPA's custodial financial institutions at September 30, 2009 and 2008. Accordingly, these investments are exposed to custodial credit risk.

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for CPA. As of September 30, 2009 and 2008, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2009 and 2008, investments at fair value consist of investments in U.S. Government money market placements.

(4) Receivables From Federal Grantor Agencies

Receivables from federal grantor agencies as of September 30, 2009 and 2008, are as follows:

	2009	2008
U.S. Department of Transportation Federal Aviation Administration		
Saipan International Airport, AIP Project No. 3-69-0002-31/32/50/53/58/60	$ 564,423	$ 426,504
Saipan International Airport, AIP Project No. 3-69-0002-37	(50,079)	(50,079)
Saipan International Airport, AIP Project No. 3-69-0002-38/41/52/55	40,872	-
Saipan International Airport, AIP Project No. 3-69-0002-45/49	-	(32,592)
Saipan International Airport, AIP Project No. 3-69-0002-48	-	21,341
Saipan International Airport, AIP Project No. 3-69-0002-57	768,589	4,081
Saipan International Airport, AIP Project No. 3-69-0002-62	46,139	-
Rota International Airport, AIP Project No. 3-69-0003-19/20	1,052,766	30,741
Tinian International Airport, AIP Project No. 3-69-0011-15/17/19/20	64,494	463,090
Tinian International Airport, AIP Project No. 3-69-0011-18	2,689	6,623
	2,489,893	869,709

(4) Receivables From Federal Grantor Agencies, Continued

	2009	2008
Transportation Security Administration		
Homeland Security	121,101	275,956
Security reimbursement	-	62,994
National Explosives Detection Canine Team Program	25,963	150,500
U.S. Department of the Interior		
OMIP	140,849	-
U.S. Department of Homeland Security		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	85,028	108,201
Passed Through from CNMI Government		
Rota Charter Flight	216,963	54,112
Tinian Harbor	929	929
Other	(21,500)	-
	$ 3,059,226	$ 1,522,401

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

(5) Accounts Receivable from Operations

CPA extends credit to organizations and individuals, substantially all of whom are located in the CNMI, Japan, the United States and Korea. CPA's accounts receivable from operations as of September 30, 2009 and 2008, are as follows:

	2009	2008
Accounts receivable	$ 5,205,576	$ 5,386,770
Less allowance for doubtful accounts	(1,266,164)	(1,656,195)
	$ 3,939,412	$ 3,730,575

(6) Capital Assets

Capital asset balances consist of the following as of September 30, 2009 and 2008:

	Estimated Useful Lives	Balance October 1, 2008	Increases	Decreases	Balance September 30, 2009
Assets not being depreciated:					
Construction in progress		$ 30,089,905	$ 11,086,352	$ (12,602,564)	$ 28,573,693
Land		464,429	-	-	464,429
Total capital assets not being depreciated		30,554,334	11,086,352	(12,602,564)	29,038,122
Capital assets being depreciated:					
Runway and improvements	20 years	92,331,622	-	(299,336)	92,032,286
Other improvements	3 - 10 years	16,258,401	9,138,465	-	25,396,866
Terminal facilities	20 years	90,881,553	2,607,546	-	93,489,099
Terminal equipment	2 - 10 years	9,840,356	590,593	-	10,430,949
Harbor facilities	20 years	62,101,850	1,524,905	-	63,626,755
Grounds maintenance and shop equipment	2 - 5 years	509,692	-	-	509,692
Fire and rescue equipment	2 - 8 years	11,506,180	15,439	-	11,521,619
Office furniture and fixtures	2 - 10 years	905,497	91,684	-	997,181
General transportation	3 - 5 years	1,010,798	34,013	-	1,044,811
Other	3 - 5 years	2,394,591	-	-	2,394,591
		287,740,540	14,002,645	(299,336)	301,443,849
Less accumulated depreciation		(127,547,389)	(11,479,589)	-	(139,026,978)
Total capital assets being depreciated		160,193,151	2,523,056	(299,336)	162,416,871
Total capital assets, net		$ 190,747,485	$ 13,609,408	$ (12,901,900)	$ 191,454,993

	Estimated Useful Lives	Balance October 1, 2007	Increases	Decreases	Balance September 30, 2008
Assets not being depreciated:					
Construction in progress		$ 57,930,776	$ 16,671,609	$ (44,512,480)	$ 30,089,905
Land		464,429	-	-	464,429
Total capital assets not being depreciated		58,395,205	16,671,609	(44,512,480)	30,554,334
Capital assets being depreciated:					
Runway and improvements	20 years	69,076,791	23,254,831	-	92,331,622
Other improvements	3 - 10 years	16,215,774	42,627	-	16,258,401
Terminal facilities	20 years	69,581,642	21,299,911	-	90,881,553
Terminal equipment	2 - 10 years	9,620,965	219,391	-	9,840,356
Harbor facilities	20 years	62,101,850	-	-	62,101,850
Grounds maintenance and shop equipment	2 - 5 years	509,692	-	-	509,692
Fire and rescue equipment	2 - 8 years	11,477,584	32,138	(3,542)	11,506,180
Office furniture and fixtures	2 - 10 years	871,010	34,487	-	905,497
General transportation	3 - 5 years	929,612	81,186	-	1,010,798
Other	3 - 5 years	2,392,367	2,224	-	2,394,591
		242,777,287	44,966,795	(3,542)	287,740,540
Less accumulated depreciation		(117,828,380)	(9,690,222)	(28,787)	(127,547,389)
Total capital assets being depreciated		124,948,907	35,276,573	(32,329)	160,193,151
Total capital assets, net		$ 183,344,112	$ 51,948,182	$ (44,544,809)	$ 190,747,485

CPA leases significant portions of airport terminal facilities and certain grounds and improvements to concessionaires, airlines, and other lessees. CPA additionally holds title to 13,646,163 square meters of land on the islands of Saipan, Tinian and Rota for seaport and airport operations. No value for this land has been recorded on CPA's books as an appraisal has not been performed.

(6) Capital Assets, Continued

Land acquired by CPA on the islands of Saipan and Rota from the former Marianas Public Land Corporation for seaport improvement and use has been recorded on CPA's books at its estimated fair market value. This estimated value is based on a land valuation established by Article VIII of the Marianas Political Status Commission as contained in the Section-by-Section Analysis of the Covenant to Establish a Commonwealth of the Northern Mariana Islands, dated February 15, 1975, for land of a similar nature leased by the CNMI to the U.S. Government.

(7) Revenue Bonds Payable

Airport Division

On March 26, 1998, CPA issued $20,050,000 of tax-exempt airport revenue bonds which in part were used for a current refunding of $8,250,000 of 1987 Series B tax-exempt airport revenue bonds. The refunding was undertaken to consolidate existing bonds with new bonds issued for the purpose of financing various airport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $503,906. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $688,620 and an increase of $7,616,151 in future debt service payments. Interest on the bonds is payable semi-annually at 6.25% on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2009 and 2008, consist of the following:

	2009	2008
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2010 and 2028 are listed below.	$ 15,375,000	$ 16,810,000
Current portion	445,000	1,435,000
Long-term portion	$ 14,930,000	$ 15,375,000

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

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

(7) Revenue Bonds Payable, Continued

Airport Division, Continued

Year ending September 30,	Principal	Interest	Total
2010	$ 445,000	$ 947,031	$ 1,392,031
2011	470,000	918,438	1,388,438
2012	505,000	887,969	1,392,969
2013	530,000	855,625	1,385,625
2014	565,000	821,406	1,386,406
2015 - 2019	3,410,000	3,512,187	6,922,187
2020 - 2024	4,605,000	2,268,595	6,873,595
2025 - 2028	4,845,000	628,594	5,473,594
	$ 15,375,000	$ 10,839,845	$ 26,214,845

Seaport Division

On March 26, 1998, CPA issued $33,775,000 of Senior Series A tax-exempt seaport revenue bonds which in part were used for a current refunding of $22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $1,345,593. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $1,724,777 and a decrease of $6,983,345 in future debt service payments. Interest on the bonds is payable semi-annually at 6.6% on March 15 and September 15 of each year.

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, 2009 and 2008, consist of the following:

	2009	2008
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2010 and 2028 are listed below.	$ 27,685,000	$ 28,425,000
Special Revenue Bonds, tax exempt, 2005 Senior Series A: interest and annual installments payable to the Bond Trustee between 2010 and 2031 are listed below.	6,920,000	7,075,000
Deferred costs of debt refunding on 1998 Senior Series A bonds	(991,758)	(1,030,410)

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

	2009	2008
Discount on 2005 Senior Series A bonds	(105,152)	(109,932)
	33,508,090	34,359,658
Current portion	950,000	895,000
Long-term portion	$ 32,558,090	$ 33,464,658

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

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

Year ending September 30,	Principal	Interest	Total
2010	$ 950,000	$ 2,177,368	$ 3,127,368
2011	1,015,000	2,114,393	3,129,393
2012	1,075,000	2,047,402	3,122,402
2013	1,145,000	1,976,233	3,121,233
2014	1,215,000	1,900,552	3,115,552
2015 - 2019	7,330,000	8,189,830	15,519,830
2020 - 2024	9,940,000	5,438,263	15,378,263
2025 - 2029	10,910,000	1,791,653	12,701,653
2030 - 2031	1,025,000	57,062	1,082,062
	$ 34,605,000	$ 25,692,756	$ 60,297,756

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, 2009 and 2008, total deposits in the Seaport supplemental reserve fund amounted to $8,037,480 and $8,038,346, respectively.

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:

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

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

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. On July 17, 2009, CPA received notice of redemption related to its 1998 Senior Series A Airport Bonds amounting to $990,000 due September 15, 2009, payable from its Construction Fund account. The balance in the optional redemption fund at September 30, 2009 amounted to $12,087.

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.

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

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

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

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

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

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

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.

(7) Revenue Bonds Payable, Continued

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 is $86,512,601 and $92,815,518 at September 30, 2009 and 2008, respectively. Pledged gross revenues received during the years ended September 30, 2009 and 2008 were $17,391,786 and $13,799,457, respectively. Debt service payments during the years ended September 30, 2009 and 2008 amounted to $5,603,212 and $4,620,985 representing 32% and 33%, respectively, of pledged gross revenues.

The bond indentures contain several restrictive covenants, including restrictions on the use of bond proceeds. Management of CPA is of the opinion that CPA was in compliance with all significant covenants as of September 30, 2009. Section 6.11 of the Airport Bond Indenture Agreement (Indenture) states that CPA shall impose, levy, enforce and collect such fees, tariffs, lease rentals and other fees and charges in an aggregate amount with respect to each fiscal year to produce gross revenues to comply with subsections (A)(1), (A)(2), (A)(3) and (A)(4) of Section 6.11. CPA failed to comply with this requirement for the Airport and Seaport Divisions at September 30, 2008.

Section 6.11(B) of the Indentures state that if the financial statements prepared pursuant to Section 6.06(B) of the Indentures reflect that at the end of a fiscal year, net revenues are less than the amount required by Section 6.11(A) for such fiscal year or if the revenues are less than the aggregate amount of all transfers required by Section 5.02(a) through (e) for such fiscal year, CPA shall not be in default under Section 7.01 if within sixty days after the date of such financial statements or the end of the fiscal year, CPA shall employ an independent consultant to make recommendations as to a revision of the rates, fees and charges or the method of operation of the airports. If such recommendations fail to meet the requirements of Section 6.11(a), such deficiency will constitute an event of default under Section 7.01.

Changes in long-term liabilities for the years ended September 30, 2009 and 2008, are as follows:

	Balance October 1, 2008	Additions	Reductions	Balance September 30, 2009	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	$ 16,810,000	$ -	$ (1,435,000)	$ 15,375,000	$ 445,000
Seaport 1998 Senior Series A	28,425,000	-	(740,000)	27,685,000	785,000
Seaport 2005 Senior Series A	7,075,000	-	(155,000)	6,920,000	165,000
Note payable	5,803,610	-	-	5,803,610	87,640
Deferred amounts:					
Deferred costs of debt refunding	(1,030,410)	-	38,652	(991,758)	-
Discount on bonds	(109,932)	-	4,780	(105,152)	-
	56,973,268	-	(2,286,568)	54,686,700	1,482,640

(7) Revenue Bonds Payable, Continued

	Balance October 1, 2008	Additions	Reductions	Balance September 30, 2009	Due Within One Year
Other:					
Compensated absences	537,955	404,583	(429,650)	512,888	279,092
Accrued interest	304,994	145,091	-	450,085	-
	$ 57,816,217	$ 549,674	$ (2,716,218)	$ 55,649,673	$ 1,761,732

	Balance October 1, 2007	Additions	Reductions	Balance September 30, 2008	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	$ 17,230,000	$ -	$ (420,000)	$ 16,810,000	$ 1,435,000
Seaport 1998 Senior Series A	29,120,000	-	(695,000)	28,425,000	740,000
Seaport 2005 Senior Series A	7,225,000	-	(150,000)	7,075,000	155,000
Note payable	6,026,715	-	(223,105)	5,803,610	-
Deferred amounts:					
Deferred costs of debt refunding	(1,069,062)	-	38,652	(1,030,410)	-
Discount on bonds	(114,711)	-	4,779	(109,932)	-
	58,417,942	-	(1,444,674)	56,973,268	2,330,000
Other:					
Compensated absences	747,803	356,097	(565,945)	537,955	275,621
Accrued interest	-	304,994	-	304,994	-
	$ 59,165,745	$ 661,091	$ (2,010,619)	$ 57,816,217	$ 2,605,621

(8) Note Payable to Related Party

CPA's note payable is as follows:

	2009	2008
Promissory note due to the Commonwealth Development Authority (CDA) (a component unit of the CNMI), interest at 2.5% per annum, with maturity date of June 15, 2030. Principal and interest payments in the amount of $31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling $450,085 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first and, accordingly, is presented as long-term in the accompanying financial statements.	$ 5,803,610	$ 5,803,610
Current portion	87,640	-
Long-term portion	$ 5,715,970	$ 5,803,610

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

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

(8) Note Payable to Related Party, Continued

Year ending September 30,	Principal	Interest	Total
2010	$ 87,640	$ 36,360	$ 124,000
2011	231,744	140,256	372,000
2012	237,605	134,395	372,000
2013	243,613	128,387	372,000
2014	249,774	122,226	372,000
2015 - 2019	1,346,871	513,129	1,860,000
2020 - 2024	1,526,007	333,993	1,860,000
2025 - 2029	1,728,967	131,033	1,860,000
2030	151,389	726	152,115
	$ 5,803,610	$ 1,540,505	$ 7,344,115

(9) Risk Management

CPA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CPA has elected to purchase commercial insurance from independent third parties for the risks of losses at its airport facilities to which it is exposed. CPA has also elected to purchase partial commercial insurance from independent third parties for risk of losses at its seaport facilities to which it is exposed.

(10) Related Party Transactions

Total related party transactions for the years ended September 30, 2009 and 2008, and the related receivable and payable balances, are as follows:

	2009			
	Revenues and Capital Contributions	Expenses	Receivables	Payables
Commonwealth Development Authority	$ -	$ 145,091	$ -	$ -
Commonwealth Utilities Corporation	-	797,892	4,201,717	-
CNMI Government	212,564	859,267	-	1,597,855
Northern Mariana Islands Retirement Fund	-	1,514,105	-	286,706
	$ 212,564	$ 3,316,355	$ 4,201,717	$ 1,884,561

(10) Related Party Transactions, Continued

	2008			
	Revenues and Capital Contributions	Expenses	Receivables	Payables
Commonwealth Development Authority	$ -	$ 129,395	$ -	$ -
Commonwealth Utilities Corporation	-	881,460	4,515,491	-
CNMI Government	2,078,701	122,675	-	1,475,196
Northern Mariana Islands Retirement Fund	-	1,818,905	-	709,739
	$ 2,078,701	$ 2,952,435	$ 4,515,491	$ 2,184,935

A note payable to CDA amounted to $5,803,610 at September 30, 2009 and 2008. Interest expense on this note for the years ended September 30, 2009 and 2008 amounted to $145,091 and $129,395, respectively.

CPA and the Commonwealth Utilities Corporation (CUC) have entered into Memorandums of Agreement (MOAs) specifying terms and conditions of the construction of a Sewerline Project. CPA, as signatory party to the project contract, paid for all payments of the project. CUC has agreed to reimburse CPA $4,700,947 of project costs.

In accordance with the MOAs, CUC shall make installments payments over a term not to exceed five years, commencing on July 1, 2008, with interest at 6.25%. CPA has the right of offset/credit utility charges in lieu of payments. The offset/credit procedure shall terminate when CUC begins actual payments on the amount owed or total offset/credits equal the principal amount. At September 30, 2009 and 2008, the receivable from CUC amounted to $4,120,943 and $4,515,491, respectively.

On June 30, 2008, CPA and CUC entered into an amended and superseding MOA for the repayment of wharfage fees due to CPA amounting to $3,385,131 with interest at 6.25%. In accordance with the MOA, CPA has the right to offset utility charges at the Port of Saipan and other ancillary accounts against the receivable from CUC beginning July 1, 2008. Total utility charges offset during the years ended September 30, 2009 and 2008 amounted to $130,320 and $24,567, respectively. Due to the potential uncollectability of the remaining amount due, the remaining receivable has been fully allowed for. Accrued interest at September 30, 2009 amounted to $80,774.

As of September 30, 2009 and 2008, CPA has liabilities of $286,706 and $709,739, respectively, to the Northern Mariana Islands Retirement Fund related to the increase in employer contribution rate from 24% to 36.77% inclusive of $242,627 representing 25% penalty on the original outstanding balance.

(10) Related Party Transactions, Continued

In accordance with Public Law No. 14-74, the CNMI government contributed $-0- and $1,290,331 during the years ended September 30, 2009 and 2008, respectively, towards CPA's airline incentive program. In addition, CPA recorded capital contributions of $212,564 and $788,370 from the CNMI government during the years ended September 30, 2009 and 2008, respectively. The amount due to the CNMI government relates to the 1% Public Auditor fee of $1,597,855 and $1,475,196 at September 30, 2009 and 2008, respectively.

(11) Commitment and Contingencies

Commitment

CPA's Airport Division leases rental car concession booths, office space, other ground space, and an electronic scanning device. The Seaport Division leases land and warehouse space. Lease terms range from one to fifteen years and in most instances contain provisions for percentage rent. Concession and lease income for the years ended September 30, 2009 and 2008, amounted to $4,646,384 and $4,476,494, respectively. Minimum future lease income is as follows:

Year ending September 30,	Minimum Lease Income Due
2010	$ 2,011,409
2011	1,796,819
2012	1,689,921
2013	1,681,552
2014	1,640,855
2015 - 2019	7,175,089
2020 - 2024	5,063,944
2025 - 2029	2,459,900
2030 - 2034	2,396,635
2035 - 2039	2,836,720
2040 - 2044	3,391,356
2045 - 2048	806,772
	$ 32,950,972

Contingencies

CPA incurred a combined loss before capital contributions from its two divisions of $7,112,860 and $10,077,585 during the years ended September 30, 2009 and 2008, respectively. Management's plans to increase revenues and/or decrease costs are as follows:

a) Continue implementation of cost cutting measures including implementation of an eight hour work reduction for all employees each payperiod.

b) Explore non-aviation revenue generating options.

c) Explore non-harbor revenue generating options.

(11) Commitment and Contingencies, Continued

Contingencies, Continued

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

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 $508,458 have been set forth in CPA's Single Audit Report for the year ended September 30, 2009. 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. During the year ended September 30, 2009, CPA paid $1,248,266, related to questioned costs for various Airport Improvement Program grants reported in CPA's audits of fiscal years 2005 through 2007.

On May 19, 2005, CPA received a Unilateral Administrative Order (UAO) issued by the U.S. Environmental Protection Agency (EPA) concerning activities at the maintenance and waste burning facilities at the Saipan International Airport. For the years ended September 30, 2009 and 2008, CPA incurred cleanup expenditures related to the UAO totaling $345,352 and $66,574, respectively. The ultimate cost of the cleanup has not been determined; accordingly, no provision has been accrued at September 30, 2009 for additional costs that may be incurred.

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

(12) Major Customers

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

During the years ended September 30, 2009 and 2008, three customers accounted for 61% and 48% of the total operating revenues of the Airport Division, and one customer accounted for 21% and 17% of the total operating revenues of the Seaport Division during the years ended September 30, 2009 and 2008, respectively.

(13) Typhoon Damages

During the year ended September 30, 2006, CPA received insurance proceeds relating to Typhoon Chaba damages. CPA recorded the proceeds as accrued expenses and expects to liquidate the accrual as typhoon repair costs are incurred. At September 30, 2009 and 2008, the remaining accrued expenses total $1,720,478.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Net Assets
September 30, 2009

ASSETS	Airport Division	Seaport Division	Elimination	Total
Current assets:				
Cash and cash equivalents	$ 2,482,559	$ 840,858	$ -	$ 3,323,417
Receivables:				
Grantor agencies	3,001,123	58,103	-	3,059,226
Operations, net	2,939,482	999,930		3,939,412
Related parties, net	1,478,603	80,774	-	1,559,377
Due from Seaport Division	429,100	-	(429,100)	-
Officers and employees	9,383	3,029	-	12,412
Prepaid expenses	84,924	388	-	85,312
Investments, restricted for construction and debt service purposes	2,535,876	13,470,136	-	16,006,012
Total current assets	12,961,050	15,453,218	(429,100)	27,985,168
Noncurrent assets:				
Deferred bond issue costs	497,172	897,190	-	1,394,362
Receivable from related party, net	2,642,340	-	-	2,642,340
Capital assets, net	143,245,831	48,209,162	-	191,454,993
Total noncurrent assets	146,385,343	49,106,352	-	195,491,695
	$ 159,346,393	$ 64,559,570	$ (429,100)	$ 223,476,863
LIABILITIES AND NET ASSETS				
Current liabilities:				
Revenue bonds payable, current portion	$ 445,000	$ 950,000	$ -	$ 1,395,000
Note payable to related party, current portion	-	87,640	-	87,640
Contractors payable	3,261,797	129,306	-	3,391,103
Trade and other payables	177,769	21,868	-	199,637
Due to related parties	1,647,038	237,523	-	1,884,561
Due to Airport Division	-	429,100	(429,100)	-
Accrued expenses	506,334	1,782,962	-	2,289,296
Compensated absences, current portion	249,755	29,337	-	279,092
Total current liabilities	6,287,693	3,667,736	(429,100)	9,526,329
Accrued interest payable	-	450,085	-	450,085
Compensated absences, net of current portion	208,942	24,854	-	233,796
Revenue bonds payable, net of current portion	14,930,000	32,558,090	-	47,488,090
Note payable to related party, net of current portion	-	5,715,970	-	5,715,970
Total liabilities	21,426,635	42,416,735	(429,100)	63,414,270
Net assets:				
Invested in capital assets, net of related debt	128,368,003	9,794,652	-	138,162,655
Restricted	2,535,876	13,470,136	-	16,006,012
Unrestricted	7,015,879	(1,121,953)	-	5,893,926
Total net assets	137,919,758	22,142,835	-	160,062,593
	$ 159,346,393	$ 64,559,570	$ (429,100)	$ 223,476,863

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2009

	Airport Division	Seaport Division	Elimination	Total
Operating revenues:				
Aviation fees	$ 6,501,451	$ -	$ -	$ 6,501,451
Concession and lease income	3,297,445	1,348,939	-	4,646,384
Seaport fees	-	4,420,940	-	4,420,940
Other	1,330,347	492,664	-	1,823,011
	11,129,243	6,262,543	-	17,391,786
Less bad debt	(14,291)	-	-	(14,291)
Operating revenues, net	11,114,952	6,262,543	-	17,377,495
Operating expenses:				
Depreciation and amortization	8,735,966	2,743,623	-	11,479,589
Salaries and wages	4,636,025	520,975	-	5,157,000
Employee benefits	1,503,082	154,515	-	1,657,597
Insurance	667,559	962,463	-	1,630,022
Contractual services	817,129	164,813	-	981,942
Utilities	665,589	132,303	-	797,892
Repairs and maintenance	435,477	34,209	-	469,686
Supplies	371,261	32,883	-	404,144
Professional fees	248,861	19,538	-	268,399
Travel	53,581	4,706	-	58,287
Training	42,317	-	-	42,317
Promotion and advertising	36,481	-	-	36,481
Other	845,148	35,635	-	880,783
Total operating expenses	19,058,476	4,805,663	-	23,864,139
Operating (loss) income	(7,943,524)	1,456,880	-	(6,486,644)
Non-operating revenues (expenses):				
Passenger facility charges	1,742,877	-	-	1,742,877
Other grant revenue and contributions	601,875	-	-	601,875
Interest income	294,046	264,168	-	558,214
Interest expense	(1,055,203)	(2,407,044)	-	(3,462,247)
Amortization of bond issue costs	(24,459)	(42,476)	-	(66,935)
Total non-operating revenues (expenses), net	1,559,136	(2,185,352)	-	(626,216)
Loss before capital contributions	(6,384,388)	(728,472)	-	(7,112,860)
Capital contributions	11,124,807	-	-	11,124,807
Change in net assets	4,740,419	(728,472)	-	4,011,947
Net assets at beginning of year	133,179,339	22,871,307	-	156,050,646
Net assets at end of year	$ 137,919,758	$ 22,142,835	$ -	$ 160,062,593

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2009

	Airport Division	Seaport Division	Elimination	Total
Cash flows from operating activities:				
Cash received from customers	$ 11,640,313	$ 5,593,515	$ -	$ 17,233,828
Cash payments to suppliers for goods and services	(5,523,985)	(1,116,191)	-	(6,640,176)
Cash payments to employees for services	(6,158,154)	(681,510)	-	(6,839,664)
Net cash (used for) provided by operating activities	(41,826)	3,795,814	-	3,753,988
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(11,914,632)	(431,035)	-	(12,345,667)
Capital and other contributions received	10,166,682	23,175	-	10,189,857
Passenger facility charge receipts	1,742,877	-	-	1,742,877
Principal paid on revenue bond maturities	(1,435,000)	(895,000)	-	(2,330,000)
Interest paid on revenue bonds and note payable to related party	(1,055,203)	(2,218,521)	-	(3,273,724)
Net cash used for capital and related financing activities	(2,495,276)	(3,521,381)	-	(6,016,657)
Cash flows from investing activities:				
Net change in restricted investments	1,216,315	(99,382)	-	1,116,933
Interest income	294,046	264,168	-	558,214
Net cash provided by investing activities	1,510,361	164,786	-	1,675,147
Net change in cash and cash equivalents	(1,026,741)	439,219	-	(587,522)
Cash and cash equivalents at beginning of year	3,509,300	401,639	-	3,910,939
Cash and cash equivalents at end of year	$ 2,482,559	$ 840,858	$ -	$ 3,323,417
Reconciliation of operating (loss) income to net cash (used for) provided by operating activities:				
Operating (loss) income	$ (7,943,524)	$ 1,456,880	$ -	$ (6,486,644)
Adjustments to reconcile operating (loss) income to net cash (used for) provided by operating activities:				
Depreciation and amortization	8,735,966	2,743,623	-	11,479,589
Bad debts	14,291	-	-	14,291
(Increase) decrease in assets:				
Receivables - operations	365,125	(588,253)	-	(223,128)
Due from Seaport Division	(291,493)	291,493	-	-
Receivables - officers and employees	48,515	-	-	48,515
Prepaid expenses	2,449	(388)	-	2,061
Receivables - related parties	394,548	(80,774)	-	313,774
Increase (decrease) in liabilities:				
Accounts payable - trade and other	(91,782)	12,762	-	(79,020)
Accounts payable - related parties	(283,571)	(16,803)	-	(300,374)
Accrued expenses	(967,678)	(16,706)	-	(984,384)
Deferred income	(5,625)	-	-	(5,625)
Compensated absences	(19,047)	(6,020)	-	(25,067)
Net cash (used for) provided by operating activities	$ (41,826)	$ 3,795,814	$ -	$ 3,753,988

See Accompanying Independent Auditors' Report.