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

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

YEAR ENDED SEPTEMBER 30, 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

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Ports Authority:

We have audited the accompanying statements of net assets of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the Commonwealth Ports Authority's (herein referred to as "CPA") audit report presents our discussion and analysis of CPA's financial performance during the fiscal year ended September 30, 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.

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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

Assets	2009	2008	2007
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

Saipan	Revenue Tons Inbound	Revenue Tons 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.