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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

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.

Debra J. Touche LLC

August 25, 2010



COMMONWEALTH PORTS AUTHORITY

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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.

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	<u>16,006,012</u>	<u>17,122,945</u>	<u>18,729,555</u>
Total current assets	<u>27,985,168</u>	<u>27,291,038</u>	<u>38,028,720</u>
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	<u>191,454,993</u>	<u>190,747,485</u>	<u>183,344,112</u>
Total noncurrent assets	<u>195,491,695</u>	<u>195,868,395</u>	<u>189,573,291</u>
	<u>\$ 223,476,863</u>	<u>\$ 223,159,433</u>	<u>\$ 227,602,011</u>
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	<u>279,092</u>	<u>275,621</u>	<u>242,557</u>
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	<u>5,715,970</u>	<u>5,803,610</u>	<u>4,745,056</u>
Total liabilities	<u>63,414,270</u>	<u>67,108,787</u>	<u>73,311,948</u>
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	<u>5,893,926</u>	<u>3,692,187</u>	<u>9,106,106</u>
Total net assets	<u>160,062,593</u>	<u>156,050,646</u>	<u>154,290,063</u>
	<u>\$ 223,476,863</u>	<u>\$ 223,159,433</u>	<u>\$ 227,602,011</u>

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	<u>1,823,011</u>	<u>1,669,780</u>	<u>1,202,062</u>
	17,391,786	13,799,457	15,152,900
Less bad debts	<u>(14,291)</u>	<u>(451,229)</u>	<u>(107,852)</u>
Operating revenues, net	<u>17,377,495</u>	<u>13,348,228</u>	<u>15,045,048</u>
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	<u>880,783</u>	<u>1,275,506</u>	<u>888,158</u>
Total operating expenses	<u>23,864,139</u>	<u>22,477,662</u>	<u>23,956,781</u>
Operating loss	<u>(6,486,644)</u>	<u>(9,129,434)</u>	<u>(8,911,733)</u>
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	<u>(66,935)</u>	<u>(66,935)</u>	<u>(66,935)</u>
Total non-operating revenues (expenses), net	<u>(626,216)</u>	<u>(948,151)</u>	<u>(721,079)</u>
Loss before capital contributions	<u>(7,112,860)</u>	<u>(10,077,585)</u>	<u>(9,632,812)</u>
Capital contributions	<u>11,124,807</u>	<u>11,838,168</u>	<u>31,686,749</u>
Changes in net assets	4,011,947	1,760,583	22,053,937
Net assets at beginning of year	<u>156,050,646</u>	<u>154,290,063</u>	<u>132,236,126</u>
Net assets at end of year	<u>\$ 160,062,593</u>	<u>\$ 156,050,646</u>	<u>\$ 154,290,063</u>

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	<u>(6,839,664)</u>	<u>(7,216,590)</u>	<u>(7,705,680)</u>
Net cash provided by (used for) operating activities	<u>3,753,988</u>	<u>2,738,495</u>	<u>(578,367)</u>
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	<u>(3,273,724)</u>	<u>(3,462,596)</u>	<u>(3,627,707)</u>
Net cash used for capital and related financing activities	<u>(6,016,657)</u>	<u>(10,606,114)</u>	<u>(6,134,427)</u>
Cash flows from investing activities:			
Net change in restricted investments	1,116,933	1,606,610	3,843,399
Interest income	<u>558,214</u>	<u>493,397</u>	<u>1,089,631</u>
Net cash provided by investing activities	<u>1,675,147</u>	<u>2,100,007</u>	<u>4,933,030</u>
Net change in cash and cash equivalents	<u>(587,522)</u>	<u>(5,767,612)</u>	<u>(1,779,764)</u>
Cash and cash equivalents at beginning of year	<u>3,910,939</u>	<u>9,678,551</u>	<u>11,458,315</u>
Cash and cash equivalents at end of year	<u>\$ 3,323,417</u>	<u>\$ 3,910,939</u>	<u>\$ 9,678,551</u>

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	<u>2,394,591</u>	<u>2,394,591</u>	<u>2,392,367</u>
	301,443,849	287,740,540	242,777,287
Less accumulated depreciation	<u>(139,026,978)</u>	<u>(127,547,389)</u>	<u>(117,828,380)</u>
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	<u>464,429</u>	<u>464,429</u>	<u>464,429</u>
Total capital assets, net	\$ <u>191,454,993</u>	\$ <u>190,747,485</u>	\$ <u>183,344,112</u>

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 Revenue Fund	659,972	464,713	404,586
Optional Redemption Fund	723	448,588	-
Construction Fund	12,087	-	-
	<u>-</u>	<u>998,519</u>	<u>979,159</u>
	<u>2,535,876</u>	<u>3,752,191</u>	<u>3,171,183</u>
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 Construction Fund	756,957	493,610	344,926
Interest	540,204	557,219	3,101,624
Revenue Fund	-	69,468	108,743
	810	238,397	-
	<u>13,470,136</u>	<u>13,370,754</u>	<u>15,558,372</u>
Total	\$ <u>16,006,012</u>	\$ <u>17,122,945</u>	\$ <u>18,729,555</u>

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	<u>6,262,543</u>	<u>5,169,137</u>	<u>5,347,573</u>
	<u>\$17,391,786</u>	<u>\$ 13,799,457</u>	<u>\$ 15,152,900</u>

The Airport and Seaport Divisions have been experiencing a declining revenue trend 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	<u>4,183,403</u>	<u>4,309,587</u>	<u>3,989,851</u>
	<u>10,322,510</u>	<u>10,234,061</u>	<u>10,668,121</u>
Seaport			
Personnel expenses	675,490	1,082,268	1,134,261
Maintenance and operations expenses	<u>1,386,550</u>	<u>1,471,111</u>	<u>1,546,477</u>
	<u>2,062,040</u>	<u>2,553,379</u>	<u>2,680,708</u>
Combined operating expenses	\$ <u>12,384,550</u>	\$ <u>12,787,440</u>	\$ <u>13,348,829</u>

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	-	-	-
	<u>12,470,603</u>	<u>9,264,470</u>	<u>10,491,657</u>	<u>6,526,711</u>	<u>5,474,433</u>	<u>6,197,064</u>
Variance (noncompliance)	\$ <u>281,656</u>	\$ <u>(3,023,253)</u>	\$ <u>(2,139,586)</u>	\$ <u>356,555</u>	\$ <u>(1,252,743)</u>	\$ <u>(228,536)</u>

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

	Enplaned Passengers	Deplaned Passengers	Landing Weights
Saipan			
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		Total
	Inbound	Outbound	
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

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
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	<u>16,006,012</u>	<u>17,122,945</u>
Total current assets	<u>27,985,168</u>	<u>27,291,038</u>
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	<u>191,454,993</u>	<u>190,747,485</u>
Total noncurrent assets	<u>195,491,695</u>	<u>195,868,395</u>
	<u>\$ 223,476,863</u>	<u>\$ 223,159,433</u>
<u>LIABILITIES AND NET ASSETS</u>		
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	<u>279,092</u>	<u>275,621</u>
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	<u>5,715,970</u>	<u>5,803,610</u>
Total liabilities	<u>63,414,270</u>	<u>67,108,787</u>
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	<u>5,893,926</u>	<u>3,692,187</u>
Total net assets	<u>160,062,593</u>	<u>156,050,646</u>
	<u>\$ 223,476,863</u>	<u>\$ 223,159,433</u>

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

	<u>2009</u>	<u>2008</u>
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	<u>1,823,011</u>	<u>1,669,780</u>
	17,391,786	13,799,457
Less bad debts	<u>(14,291)</u>	<u>(451,229)</u>
Operating revenues, net	<u>17,377,495</u>	<u>13,348,228</u>
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	<u>880,783</u>	<u>1,275,506</u>
Total operating expenses	<u>23,864,139</u>	<u>22,477,662</u>
Operating loss	<u>(6,486,644)</u>	<u>(9,129,434)</u>
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	<u>(66,935)</u>	<u>(66,935)</u>
Total non-operating revenues (expenses), net	<u>(626,216)</u>	<u>(948,151)</u>
Loss before capital contributions	(7,112,860)	(10,077,585)
Capital contributions	<u>11,124,807</u>	<u>11,838,168</u>
Change in net assets	4,011,947	1,760,583
Net assets at beginning of year	<u>156,050,646</u>	<u>154,290,063</u>
Net assets at end of year	<u>\$ 160,062,593</u>	<u>\$ 156,050,646</u>

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

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

	<u>2009</u>	<u>2008</u>
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	<u>3,753,988</u>	<u>2,738,495</u>
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	<u>(6,016,657)</u>	<u>(10,606,114)</u>
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	<u>1,675,147</u>	<u>2,100,007</u>
Net change in cash and cash equivalents	(587,522)	(5,767,612)
Cash and cash equivalents at beginning of year	<u>3,910,939</u>	<u>9,678,551</u>
Cash and cash equivalents at end of year	<u>\$ 3,323,417</u>	<u>\$ 3,910,939</u>
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	<u>\$ 3,753,988</u>	<u>\$ 2,738,495</u>

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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 statutory determined contribution rate of the Fund. It is the understanding of the management of CPA that the statutory 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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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:

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(3) Deposits and Investments, Continued

Investments, Continued

	<u>2009</u>	<u>2008</u>
<u>Airport Division</u>		
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	<u>12,087</u>	<u>-</u>
	<u>2,535,876</u>	<u>3,752,191</u>
<u>Seaport Division</u>		
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	<u>810</u>	<u>238,397</u>
	<u>13,470,136</u>	<u>13,370,754</u>
	<u>\$ 16,006,012</u>	<u>\$ 17,122,945</u>

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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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:

	<u>2009</u>	<u>2008</u>
<u>U.S. Department of Transportation</u>		
<u>Federal Aviation Administration</u>		
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	<u>2,689</u>	<u>6,623</u>
	2,489,893	869,709

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(4) Receivables From Federal Grantor Agencies, Continued

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

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

(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:

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

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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		<u>464,429</u>	<u>-</u>	<u>-</u>	<u>464,429</u>
Total capital assets not being depreciated		<u>30,554,334</u>	<u>11,086,352</u>	<u>(12,602,564)</u>	<u>29,038,122</u>
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	<u>2,394,591</u>	<u>-</u>	<u>-</u>	<u>2,394,591</u>
		287,740,540	14,002,645	(299,336)	301,443,849
Less accumulated depreciation		<u>(127,547,389)</u>	<u>(11,479,589)</u>	<u>-</u>	<u>(139,026,978)</u>
Total capital assets being depreciated		<u>160,193,151</u>	<u>2,523,056</u>	<u>(299,336)</u>	<u>162,416,871</u>
Total capital assets, net		<u>\$ 190,747,485</u>	<u>\$ 13,609,408</u>	<u>\$ (12,901,900)</u>	<u>\$ 191,454,993</u>
	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		<u>464,429</u>	<u>-</u>	<u>-</u>	<u>464,429</u>
Total capital assets not being depreciated		<u>58,395,205</u>	<u>16,671,609</u>	<u>(44,512,480)</u>	<u>30,554,334</u>
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	<u>2,392,367</u>	<u>2,224</u>	<u>-</u>	<u>2,394,591</u>
		242,777,287	44,966,795	(3,542)	287,740,540
Less accumulated depreciation		<u>(117,828,380)</u>	<u>(9,690,222)</u>	<u>(28,787)</u>	<u>(127,547,389)</u>
Total capital assets being depreciated		<u>124,948,907</u>	<u>35,276,573</u>	<u>(32,329)</u>	<u>160,193,151</u>
Total capital assets, net		<u>\$ 183,344,112</u>	<u>\$ 51,948,182</u>	<u>\$ (44,544,809)</u>	<u>\$ 190,747,485</u>

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

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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:

	<u>2009</u>	<u>2008</u>
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	<u>445,000</u>	<u>1,435,000</u>
Long-term portion	<u>\$ 14,930,000</u>	<u>\$ 15,375,000</u>

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

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

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(7) Revenue Bonds Payable, Continued

Airport Division, Continued

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>4,845,000</u>	<u>628,594</u>	<u>5,473,594</u>
	<u>\$ 15,375,000</u>	<u>\$ 10,839,845</u>	<u>\$ 26,214,845</u>

Seaport Division

On March 26, 1998, CPA issued \$33,775,000 of Senior Series A tax-exempt seaport revenue bonds which in part were used for a current refunding of \$22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$1,345,593. This amount 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:

	<u>2009</u>	<u>2008</u>
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)

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

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

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

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>1,025,000</u>	<u>57,062</u>	<u>1,082,062</u>
	\$ <u>34,605,000</u>	\$ <u>25,692,756</u>	\$ <u>60,297,756</u>

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:

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

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

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

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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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:

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

- 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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(7) Revenue Bonds Payable, Continued

	Balance October <u>1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2009</u>	Due Within <u>One Year</u>
Other:					
Compensated absences	537,955	404,583	(429,650)	512,888	279,092
Accrued interest	<u>304,994</u>	<u>145,091</u>	<u>-</u>	<u>450,085</u>	<u>-</u>
	<u>\$ 57,816,217</u>	<u>\$ 549,674</u>	<u>\$ (2,716,218)</u>	<u>\$ 55,649,673</u>	<u>\$ 1,761,732</u>
	Balance October <u>1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2008</u>	Due Within <u>One Year</u>
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	<u>(114,711)</u>	<u>-</u>	<u>4,779</u>	<u>(109,932)</u>	<u>-</u>
	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	<u>-</u>	<u>304,994</u>	<u>-</u>	<u>304,994</u>	<u>-</u>
	<u>\$ 59,165,745</u>	<u>\$ 661,091</u>	<u>\$ (2,010,619)</u>	<u>\$ 57,816,217</u>	<u>\$ 2,605,621</u>

(8) Note Payable to Related Party

CPA's note payable is as follows:

	<u>2009</u>	<u>2008</u>
Promissory note due to the Commonwealth Development Authority (CDA) (a component unit of the CNMI), interest at 2.5% per annum, with maturity date of June 15, 2030. Principal and interest payments in the amount of \$31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling \$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	<u>87,640</u>	<u>-</u>
Long-term portion	<u>\$ 5,715,970</u>	<u>\$ 5,803,610</u>

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

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

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(8) Note Payable to Related Party, Continued

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>151,389</u>	<u>726</u>	<u>152,115</u>
	<u>\$ 5,803,610</u>	<u>\$ 1,540,505</u>	<u>\$ 7,344,115</u>

(9) Risk Management

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

	<u>2009</u>			
	<u>Revenues and Capital Contributions</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
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	<u>-</u>	<u>1,514,105</u>	<u>-</u>	<u>286,706</u>
	<u>\$ 212,564</u>	<u>\$ 3,316,355</u>	<u>\$ 4,201,717</u>	<u>\$ 1,884,561</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(10) Related Party Transactions, Continued

	2008			
	<u>Revenues and Capital Contributions</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
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	<u>-</u>	<u>1,818,905</u>	<u>-</u>	<u>709,739</u>
	<u>\$ 2,078,701</u>	<u>\$ 2,952,435</u>	<u>\$ 4,515,491</u>	<u>\$ 2,184,935</u>

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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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:

<u>Year ending September 30,</u>	<u>Minimum Lease Income Due</u>
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	<u>806,772</u>
	<u>\$ 32,950,972</u>

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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2009 and 2008

(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

<u>ASSETS</u>	<u>Airport Division</u>	<u>Seaport Division</u>	<u>Elimination</u>	<u>Total</u>
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	<u>12,961,050</u>	<u>15,453,218</u>	<u>(429,100)</u>	<u>27,985,168</u>
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	<u>146,385,343</u>	<u>49,106,352</u>	<u>-</u>	<u>195,491,695</u>
	<u>\$ 159,346,393</u>	<u>\$ 64,559,570</u>	<u>\$ (429,100)</u>	<u>\$ 223,476,863</u>
<u>LIABILITIES AND NET ASSETS</u>				
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	<u>21,426,635</u>	<u>42,416,735</u>	<u>(429,100)</u>	<u>63,414,270</u>
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	<u>137,919,758</u>	<u>22,142,835</u>	<u>-</u>	<u>160,062,593</u>
	<u>\$ 159,346,393</u>	<u>\$ 64,559,570</u>	<u>\$ (429,100)</u>	<u>\$ 223,476,863</u>

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	<u>(41,826)</u>	<u>3,795,814</u>	<u>-</u>	<u>3,753,988</u>
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	<u>(2,495,276)</u>	<u>(3,521,381)</u>	<u>-</u>	<u>(6,016,657)</u>
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	<u>1,510,361</u>	<u>164,786</u>	<u>-</u>	<u>1,675,147</u>
Net change in cash and cash equivalents	(1,026,741)	439,219	-	(587,522)
Cash and cash equivalents at beginning of year	<u>3,509,300</u>	<u>401,639</u>	<u>-</u>	<u>3,910,939</u>
Cash and cash equivalents at end of year	<u>\$ 2,482,559</u>	<u>\$ 840,858</u>	<u>\$ -</u>	<u>\$ 3,323,417</u>
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	<u>\$ (41,826)</u>	<u>\$ 3,795,814</u>	<u>\$ -</u>	<u>\$ 3,753,988</u>

See Accompanying Independent Auditors' Report.

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

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2009

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Commonwealth Ports Authority:

We have audited the financial statements of the Commonwealth Ports Authority (CPA) as of and for the year ended September 30, 2009, and have issued our report thereon dated August 25, 2010. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CPA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CPA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CPA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs (pages 8 through 17) as item 2009-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of CPA in a separate letter dated August 25, 2010.

CPA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit CPA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Board of Directors of CPA, others within the entity, federal awarding agencies, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLC

August 25, 2010

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors
Commonwealth Ports Authority:

Compliance

We have audited the compliance of the Commonwealth Ports Authority (CPA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. CPA's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 8 through 17). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of CPA's management. Our responsibility is to express an opinion on CPA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CPA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on CPA's compliance with those requirements.

As described in items 2009-2 through 2009-4 in the accompanying Schedule of Findings and Questioned Costs, CPA did not comply with requirements regarding allowable costs/cost principles, equipment and real property management and reporting that are applicable to its CFDA # 20.106 Airport Improvement Program. Compliance with such requirements is necessary, in our opinion, for CPA to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, CPA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2009.

Internal Control Over Compliance

The management of CPA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered CPA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CPA's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in CPA's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2009-2 through 2009-4 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of CPA as of and for the year ended September 30, 2009, and have issued our report thereon dated August 25, 2010. Our audit was performed for the purpose of forming our opinion on CPA's basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied 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.

CPA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit CPA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Board of Directors of CPA, others within the entity, federal awarding agencies and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

DeLoach & Towhe LLC

August 25, 2010

COMMONWEALTH PORTS AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2009

Program Title	Federal CFDA Number/ Grantor I.D. No.	Expenditures
<u>U.S. Department of Transportation</u>		
<u>Airport Improvement Program</u>	20.106	
Direct Grants:		
Saipan International Airport - Saipan Rehabilitation Phase I, II, III, IV & V	3-69-0002-31/32/50/53/58	\$ 4,393,939
Saipan International Airport - Saipan Rehabilitation Phase VI (ARRA)	3-69-0002-60	67,432
Saipan International Airport - Security Enhancement Phase I	3-69-0002-38/41/52/55	1,023,519
Saipan International Airport - Airport Runway Safety	3-69-0002-45/49	32,592
Saipan International Airport - ARFF Building Expansion	3-69-0002-54	11,410
Saipan International Airport - Emergency Generator/Procurement/Install	3-69-0002-57/59	2,116,162
Saipan International Airport - Improve Terminal Building	3-69-0002-62	61,577
Rota International Airport - Extended Runway	3-69-0003-19/20	2,424,553
Tinian International Airport - Strengthen Parallel Taxiway - Phase I	3-69-0011-15/17/19/20	989,994
Tinian International Airport - ARFF Building Relocation Phase I	3-69-0011-18	<u>3,629</u>
		<u>11,124,807</u>
<u>Transportation Security Administration</u>		
National Explosives Detection Canine Team Program (NEDCTP)	97.072	150,500
Saipan International Airport - Reimbursement Agreement	HSTS0208HSLR157	<u>54,097</u>
		<u>204,597</u>
<u>U.S. Department of the Interior</u>		
OMIP CNMI-CPA-2007-1 Specialized Equipment/Training	15.875	111,602
OMIP CNMI-CPA-2006-4 2nd Year ARFF Training	15.875	<u>73,112</u>
		<u>184,714</u>
		<u>\$ 11,514,118</u>
Reconciliation:		
Expenditures per Statement of Revenues, Expenses and Changes in Net Assets		\$ 11,726,682
Contributions from the CNMI government		<u>(212,564)</u>
		<u>\$ 11,514,118</u>

See accompanying notes to the schedule of expenditures of federal awards.

COMMONWEALTH PORTS AUTHORITY

Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2009

(1) Scope of Audit

The Commonwealth Ports Authority (CPA) was established as a public corporation by the Commonwealth of the Northern Mariana Islands (CNMI) by Public Law 2-48, effective November 8, 1981. All significant operations of CPA are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior's Office of the Inspector General has been designated as CPA's cognizant agency for the Single Audit.

All of the programs presented in the Schedule of Expenditures of Federal Awards are subject to the Single Audit.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotments or grant awards received. All expenses and capital outlays are reported as expenditures.

Any federal funds expended in excess of federal funds received are recorded as a receivable from the grantor agency and any federal funds received in excess of federal funds expended are recorded as a payable to the grantor agency.

b. Indirect Cost Allocation

CPA does not receive any indirect cost allocation and no indirect costs were recorded against any federal program for fiscal year 2009. The Federal Aviation Administration programs do allow, upon grantor approval, certain administrative expenses to be charged against the grants.

c. Matching Requirements

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

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | | |
|----|--|---------------|
| 1. | Type of auditors' report issued: | Unqualified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | Yes |
| 3. | Significant deficiency(ies) identified that is not considered to be a material weakness? | None reported |
| 4. | Noncompliance material to the financial statements noted? | None reported |

Federal Awards

- | | | |
|-----|--|---------------|
| | Internal control over major programs: | |
| 5. | Material weakness(es) identified? | None reported |
| 6. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 7. | Type of auditors' report issued on compliance for major programs: | Qualified |
| 8. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes |
| 9. | CPA's major program was as follows: | |
| | CFDA
<u>Number</u> <u>Federal Program</u> | |
| | 20.106 Airport Improvement Program | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$345,423 |
| 11. | CPA qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | No |

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2009-1	Internal Controls	10 - 13

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2009-2	Allowable Costs/Cost Principles	\$ -	14
2009-3	Equipment and Real Property Management	\$ -	15 - 16
2009-4	Reporting	\$ -	17

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Internal Controls

Finding No. 2009-1

Criteria: Proper internal controls are established to mitigate risks associated with the processing and recording of information in the general ledger.

Condition: During the year ended September 30, 2009, the following were noted:

Cash

- The Airport general checking account (GL No. 1010-000) was not reconciled during the fiscal year. At September 30, 2009, the general ledger account balance was (\$16,095) and the bank balance was \$21,263.
- Reconciliations of the Airport (GL No. 1020-000) and Seaport (GL No. 1040-000) payroll accounts were not performed during the fiscal year ended September 30, 2009.
- Management reviews of bank reconciliations prepared are not evidenced.

Receivables from Grantor Agencies

The Airport and Seaport Divisions recorded receivables from grantor agencies of \$3,001,123 and \$58,103, respectively, as of September 30, 2009. Our tests determined that the account balances were not reconciled, monitored or maintained during the fiscal year. Management did not consider variances noted to be material enough to warrant adjustment.

Construction in Progress

Construction in progress accounts (CIP) for the Airport and Seaport Divisions were not properly maintained or reconciled during the year. As a result, numerous audit adjustments were proposed to reconcile the general ledger to the subledger. Although CIP schedules were provided, not all project totals agreed to the general ledger.

Contracts Payable

The Airport Division recorded preliminary contracts payable (GL #2021-000) amounting to \$3,377,311 as of September 30, 2009. The supporting detailed schedule amounted to \$2,594,503, a difference of \$782,808. Proposed audit adjustments resulting from our tests of grant expenses affected contract payable by \$658,364, reducing the variance to \$124,444. Management did not consider the remaining variance material enough to warrant adjustment.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-1, Continued

Condition, Continued:

Accrued Vacation

During the year ended September 30, 2009, accrued vacation payable for both the Airport and Seaport Divisions were not adjusted or reconciled. Upon our request, the accounts were subsequently reconciled and audit adjustments were proposed. The accrued annual leave schedule is maintained manually and requires an update each payperiod.

Payroll

- Of twenty-one payroll items tested, thirteen items had unreconciled variances between the payroll register and general ledger account as follows:

PP #	PPE	Location	Department	Per G/L (Date Posted)	G/L Account No.	Per Register	Per G/L (Amount)	Variance
14	03/28/09	Saipan	ARFF	04/07/09	6751-100	\$ 38,951	\$ 40,588	\$ (1,637)
3	10/25/08	Saipan	Administration	11/03/08	6851-101	\$ 7,655	\$ 7,128	527
8	01/03/09	Saipan	ARFF	01/14/09	6751-100	\$ 42,013	\$ 43,650	(1,637)
14	03/28/09	Saipan	ARFF	04/07/09	6751-100	\$ 38,951	\$ 40,588	(1,637)
14	03/28/09	Saipan	Custodial	04/07/09	6251-100	\$ 14,545	\$ 13,176	1,369
2	10/11/08	Saipan	ARFF	10/21/08	6751-100	\$ 38,734	\$ 40,371	(1,637)
15	04/11/09	Tinian	Ports Police	04/27/09	6951-200	\$ 5,511	\$ 6,671	(1,160)
19	06/06/09	Saipan	Administration	06/15/09	6851-101	\$ 11,734	\$ 9,811	1,923
12	02/28/09	Saipan	Operations	03/11/09	6152-103	\$ 15,379	\$ 15,589	(210)
18	05/23/09	Tinian	ARFF	06/02/09	6751-200	\$ 3,482	\$ 4,932	(1,450)
17	05/09/09	Tinian	Ports Police	05/20/09	6951-200	\$ 4,193	\$ 6,157	(1,964)
15	04/11/09	Saipan	Custodial	04/27/09	6251-100	\$ 14,495	\$ 13,126	1,369
5	11/22/08	Rota	Custodial	12/02/08	6251-300	\$ 2,052	\$ 3,583	(1,531)

\$ (7,675)

- CPA has been assessed a penalty of \$176,378 related to the non-filing of Form 941 Employer's Quarterly Federal Tax Return for fiscal year 2008 and the first and second quarters of fiscal year 2009. CPA received various notices from the Internal Revenue Service but did not act on these notices in a timely manner.

Journal Entries

Our tests of journal entries for the Airport and Seaport Divisions noted the following:

- Many journal entries relate to reclassifications and reversals of posting errors.
- Voided journal entries are not numerically accounted for, resulting in a break in numerical sequence.
- Journal entries are not posted in a timely manner.
- During fiscal year 2009, three individuals were authorized to post journal entries, each utilizing his/her own journal number sequence.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-1, Continued

Condition, Continued:

Grant Expenses

- Variances were noted between expenses reported on the preliminary schedule of expenditures of federal awards (SEFA) and supporting detailed schedules. Numerous audit adjustments were proposed to reconcile the supporting detailed schedules, general ledger and the SEFA.
- Expenses were incurred for one project (CPA-SA-001-08) that was not included in the approved project listing from the U.S. Department of the Interior.

Cause: The cause of the above condition is the lack of adherence to established internal controls related to the processing and recording of information in the general ledger.

Effect: The effect of the above condition is the misstatement of account balances.

Recommendation: We recommend the following:

- All general ledger accounts be reconciled, reviewed and monitored on a timely and monthly basis.
- All accounts recorded in the general ledger are properly reconciled in a timely manner.
- Supporting journal vouchers, disbursement vouchers, invoices, and reconciliations be properly maintained.
- An analysis of the current system's capabilities to alleviate and/or minimize manual journal entries and the use of spreadsheets should be undertaken.
- Journal entry review should be evidenced.
- Journal entries should be utilized in numerical sequence.
- Policies and procedures be established to ensure all payroll related reporting requirements are addressed and penalties avoided.

Prior Year Status: Control weaknesses over cash, receivables from grantor agencies, construction in progress, contracts payable, accrued vacation, payroll, journal entries and grant expenses were reported as a finding in the Single Audit of CPA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek T. Sasamoto, Comptroller

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-1, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: CPA has been working towards reconciling general ledger accounts on a monthly basis in fiscal year 2010. In fact, CPA's financial consultant was tasked to assist CPA accounting staff with the proper methods and procedures for reconciling accounts. Progress is slowly coming forth. However, CPA is committed to continue to reach its goal of reconciling accounts on a monthly basis. CPA's financial consultant will continue to assist in this regard.

In terms of maintaining supporting documents, CPA has been addressing this issue in FY 2010 by examining its filing system and ensuring that it is maintained accurately (by proper fiscal year for example) and properly. During the FY 09 audit, efforts were made to correct and update files that were maintained erroneously. These actions prompted further review to determine whether more corrections and updating were needed. Efforts are being made to ensure that all document files are complete (e.g., all documents that require a signature and date, are signed and dated).

CPA is making efforts in FY 2010 to reduce the use of manual journal entries. Moreover, CPA will take steps to reduce the use of external spreadsheets. This will require training from an outside source as most CPA accounting staff are not familiar with every aspect/function of the current accounting system (MAS 90).

Currently, all journal entries must be stamped with evidence (signature/initials) as to who prepared, reviewed and approved the journal voucher. Further, the user who inputs the entry into MAS 90 must be indicated on the journal entry document.

To maintain the sequential issuance of journal vouchers CPA assigns the task to one individual. This individual maintains the numerical sequence used to avoid confusion and duplication, as might happen if multiple individuals had the responsibility. Moreover, only one individual has the responsibility to access and update journal entries in the system.

For payroll reporting requirements, CPA hired a professional firm to assist with the task of preparing required reports, ensuring accuracy, and proper submission. This firm is tasked to ensure that CPA is current in FY 2010. Moreover, CPA management has asked the firm for guidance and training of appropriate CPA staff in order to ensure that all reporting requirements are maintained and complied with in the future.

Proposed Completion Date: All the above-mentioned steps are to be implemented before this fiscal year is over (September 30, 2010).

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-2
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: AIP Nos. 3-69-0002-57 and 3-69-0002-59
Federal Award Periods Ended: 06/12/10 and 09/01/13
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

Criteria: Construction projects funded by federal grants are required to include the Buy American clause within the contract.

Condition: Our tests of project specifications and notice to bidders for the Emergency Generator project did not note the inclusion of the Buy American clause.

Cause: The cause of the above condition is the lack of controls to ensure compliance with federal contract requirements.

Effect: The effect of the above condition is lack of compliance with grant requirements. No questioned costs result as the contractor adhered to requirements of the Buy American clause.

Recommendation: We recommend management ensure all provisions required by federal grant awards are included in contracts and/or project specifications.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek T. Sasamoto, Comptroller

Corrective Action: CPA will ensure that all announcements/solicitations and contracts funded by federal funds contain the Buy American clause, as required.

Corrective action will be taken immediately, and completion will be achieved before the end of FY 2010. CPA will ensure this clause is applied consistently as required.

Proposed Completion Date: Before the end of FY 2010

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-3
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: All AIP Grants
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with 49 CFR, Section 18.31(4)(d)(1)(2)(3)(4), equipment procedures (including replacement equipment), whether acquired in whole or in part with grant funds, are required to meet the following criteria:

- (1) Property records must include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property;
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years;
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated;
- (4) Adequate maintenance procedures must be developed to keep the property in good condition; and
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Condition: CPA has not conducted a physical inventory of its fixed assets in the last three years. In addition, a log indicating the location of equipment is not being maintained. Total fixed asset additions related to CPA's major program amounted to \$11,051,139, \$9,826,975 and \$22,986,600 during fiscal years 2009, 2008 and 2007, respectively. Of the total additions, \$10,734,776, \$9,778,502 and \$22,022,560 represent additions to construction in progress during the fiscal years ended September 30, 2009, 2008 and 2007, respectively.

Cause: The cause of the above condition is the lack of controls to ensure compliance with equipment requirements.

Effect: The effect of the above condition is noncompliance with 49 CFR, Section 18.31(4)(d)(1)(2)(3)(4).

Recommendation: We recommend that management ensure a physical inventory of equipment is conducted at least once every two years. We also recommend that documentation procedures be established to ensure fixed asset records are maintained.

Prior Year Status: The lack of compliance with 49, CFR Section 18.31(4)(d)(1)(2)(3)(4) was reported as a finding in the Single Audit of CPA for fiscal year 2008.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-3, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: All AIP Grants
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek T. Sasamoto, Comptroller

Corrective Action: In FY 2010, CPA made efforts to conduct physical inventories of its department property. A significant effort is needed as inventories have not been performed for some time. CPA's goal is to eventually account for all equipment and property. An inventory log has been created tracking purchases, existing equipment, location, funding source, disposition, condition, purchasing source (PO number for example), date acquired, etc. CPA will increase its effort and ensure that all property (purchases through federal funds and local funds) is accounted for. CPA will follow the recommendation and conduct a physical inventory at least once every two years.

CPA intends to complete the inventory by the end of FY 2010. CPA will then maintain inventory records in the future.

Proposed Completion Date: By the end of FY 2010

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-4
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: All AIP Grants
Area: Reporting
Questioned Costs: \$-0-

Criteria: The expenses reported on the Outlay Report and Request for Reimbursement (SF-271) should be based on the general ledger.

Condition: Based on our examination of the general ledger, we noted that grant expenses for the year were not recorded on a regular and monthly basis.

Cause: The cause of the above condition is that spreadsheets are being used to keep track of expenses and for reporting purposes.

Effect: The effect of the above condition is that the SF-271 does not reflect the expenses recorded in the general ledger at the time of submission.

Recommendation: We recommend management ensure all expenses are properly recorded in a monthly and timely basis.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek T. Sasamoto, Comptroller

Corrective Action: Currently, CPA is recording all general ledger entries as transactions occur. CPA is ensuring that submitted progress billings are entered into the general ledger as they are received. Moreover, all outlays and corresponding reimbursement requests are being recorded in the general ledger as they occur. CPA is reducing the use of manual journal vouchers for recording these transactions (Accounting is no longer processing journal vouchers for recording these transactions). Finally, general ledger entries are reconciled to actual expenditures claimed on the request for reimbursement.

CPA considers this corrective action to be completed. However, CPA will ensure that it is enforced and continues throughout this fiscal year and all future fiscal years.

Proposed Completion Date: Ongoing

COMMONWEALTH PORTS AUTHORITY

Unresolved Prior Year Comments
Year Ended September 30, 2009

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2009:

Questioned costs of fiscal year 2006	\$ 194,685
Questioned costs of fiscal year 2007	426,553
Questioned costs of fiscal year 2008	428,526
Questioned costs of fiscal year 2009	-
Resolved with grantor agency - Note 1	<u>(541,306)</u>
Unresolved questioned costs at September 30, 2009	\$ <u>508,458</u>

Unresolved Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 8 through 17).

Note 1 - During the year ended September 30, 2009, CPA paid \$541,306 to a grantor agency related to questioned costs reported in the audits of CPA for fiscal years 2006 and 2007.



COMMONWEALTH PORTS AUTHORITY

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SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS

Status of audit findings included in the schedule of findings and questioned costs for the year ended September 30, 2008:

FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

- Finding No. 2008-1 - Not corrected. See corrective action plan to Finding No. 2009-1.
- Finding No. 2008-2 - Corrective action was taken.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

- Finding No. 2008-3 - Corrective action was taken.
- Finding No. 2008-4 - Corrective action was taken.
- Finding No. 2008-5 - Corrective action was taken.
- Finding No. 2008-6 - Not corrected. See corrective action plan to Finding No. 2009-3.