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, 2010

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Ports Authority:

We have audited the accompanying statements of net assets of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 2010 and 2009, 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, 2010 and 2009, 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, 2010 (pages 34 through 36) 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 5, 2011, on our consideration of internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

August 5, 2011

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, 2010. 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 137 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, 2010, with selected comparative information for the fiscal years ended September 30, 2009 and 2008.

The notes to the financial statements are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt compliance during the year, including commitments made for capital expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

CPA's financial transactions and subsequent statements are prepared in accordance with accounting principles generally accepted in the United States of America and standards mandated by the Governmental Accounting Standards Board, as applicable to governmental entities.

CPA operates on the accrual basis of accounting wherein revenues are recognized when earned, not when received, and expenses are recorded when incurred, not when paid. Capital assets, except for land, are capitalized and depreciated over their useful lives. Further information is provided in the footnotes of the accompanying audited financial statements.

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

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

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

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

FINANCIAL HIGHLIGHTS

Total assets for the airport and seaport operations combined increased by 2.7% or $6,086,656 from $223,476,863 in FY2009 to $229,563,519 in FY2010.

Net assets for the airport and seaport operations combined increased by 2.7% or $4,362,012 from $160,062,593 in FY2009 to $164,424,605 in FY2010. Net assets represent the amount that total assets exceed total liabilities.

In FY2010, airport enplanement (air passenger departures) increased by 3.9% and deplanement (air passenger arrivals) declined by 1.2% from FY 2009 due to the declining trend of passenger arrivals to the CNMI.

In FY2010, seaport inbound cargo increased by 6.8% and outbound cargo decreased by 20.7% from FY2009 due to the demise of the garment industry and the general recession of economic activity.

Operating revenues for the airport and seaport operations combined increased by 0.45% or $77,521 from $17,391,786 in FY2009 to $17,469,307 in FY2010. Operating revenues for the Airport Division decreased by 1.9% or $209,314 from $11,129,243 in FY2009 to $10,919,929 in FY2010. Operating revenues for the Seaport Division increased by 4.6% or $286,835 from $6,262,543 in FY2009 to $6,549,378 in FY2010.

Operating expenses (excluding depreciation and amortization) for the airport and seaport operations combined increased by 4.4% or $545,800 from $12,384,550 in FY2009 to $12,930,350 in FY2010, due to unexpected airport maintenance.

The Airport Division aviation revenue declined by $321,518 due to declining airport traffic. In order to ensure and maintain compliance with the Bond Indenture Agreement (the Agreement) from FY 2009 and onward, CPA hired a consultant to assist with monitoring CPA's position in terms of compliance with the Agreement. Quarterly monitoring procedures were put into effect for FY2011 in order to adopt austerity measures for personnel and employee benefits, as needed. CPA expects to be in compliance with the Agreement for FY2011.

The Seaport Division performed a rate study in 2008, which resulted in a tariff increase in March 2009. This was performed due to the departure of the garment industry and the drastic decline in port revenue tons. It was through this effort that revenues increased in FY2009 as well as in FY2010. This trend allowed the Seaport Division to increase its fees by 9.6% or $423,701 from $4,420,940 in FY2009 to $4,844,641 in FY2010. The Seaport Division was in compliance with its 1998 and 2005 Bond Indenture Agreement (the Agreement) for FY2010. The consultant hired to monitor the Airport revenues and expenses also performing the same tasks for the Seaport. It is management's policy to apply any austerity measures adopted by the Airport Division to the Seaport Division. CPA expects the Seaport Division to be in compliance with the Agreement for FY2011.

Statements of Net Assets

	2010	2009	2008
Assets			
Current assets:			
Cash	$ 5,678,533	$ 3,323,417	$ 3,910,939
Receivables	10,156,186	8,570,427	6,169,781
Prepaid expenses	75,321	85,312	87,373
Investments, restricted for construction and debt service purposes	15,394,649	16,006,012	17,122,945
Total current assets	**31,304,689**	**27,985,168**	**27,291,038**
Noncurrent assets:			
Deferred bond issue costs	1,327,427	1,394,362	1,461,297
Receivable from related party, net	1,691,084	2,642,340	3,659,613
Capital assets, net	195,240,319	191,454,993	190,747,485
Total noncurrent assets	**198,258,830**	**195,491,695**	**195,868,395**
	$ 229,563,519	**$ 223,476,863**	**$ 223,159,433**
Liabilities and Net Assets			
Current liabilities:			
Revenue bonds payable, current portion	$ 1,485,000	$ 1,395,000	$ 2,330,000
Note payable to related party, current portion	236,814	87,640	-
Contractors payable	6,260,342	3,391,103	3,549,673
Trade and other payables	331,800	199,637	278,657
Due to related parties	1,743,912	1,884,561	2,184,935
Accrued expenses	2,436,667	2,289,296	3,273,680
Deferred income	20,601	-	5,625
Compensated absences, current portion	213,228	279,092	275,621
Total current liabilities	**12,728,364**	**9,526,329**	**11,898,191**
Accrued interest payable	546,679	450,085	304,994
Compensated absences, net of current portion	333,123	233,796	262,334
Revenue bonds payable, net of current portion	46,046,522	47,488,090	48,839,658
Note payable to related party	5,484,226	5,715,970	5,803,610
Total liabilities	**65,138,914**	**63,414,270**	**67,108,787**
Net assets:			
Invested in capital assets, net of related debt	141,987,757	136,768,293	135,235,514
Restricted	15,394,649	16,006,012	17,122,945
Unrestricted	7,042,199	7,288,288	3,692,187
Total net assets	**164,424,605**	**160,062,593**	**156,050,646**
	$ 229,563,519	**$ 223,476,863**	**$ 223,159,433**

Statements of Revenues, Expenses and Changes in Net Assets

	2010	2009	2008
Operating revenues:			
Aviation fees	$ 6,179,933	$ 6,501,451	$ 4,120,192
Concession and lease income	4,707,191	4,646,384	4,476,494
Seaport fees	4,844,641	4,420,940	3,532,991
Other	1,737,542	1,823,011	1,669,780
	17,469,307	17,391,786	13,799,457
Less bad debts	(623,954)	(14,291)	(451,229)
Operating revenues, net	**16,845,353**	**17,377,495**	**13,348,228**
Operating expenses:			
Depreciation and amortization	11,675,296	11,479,589	9,690,222
Salaries and wages	5,633,462	5,157,000	4,982,248
Employee benefits	1,649,529	1,657,597	2,024,494

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

	2010	2009	2008
Operating expenses, continued:			
Insurance	1,623,922	1,630,022	1,802,510
Contractual services	1,446,401	981,942	759,264
Utilities	787,129	797,892	881,460
Repairs and maintenance	303,071	469,686	350,245
Supplies	448,214	404,144	244,900
Professional fees	222,816	268,399	225,657
Travel	72,585	58,287	119,127
Training	54,445	42,317	86,457
Promotion and advertising	36,632	36,481	35,572
Other	652,144	880,783	1,275,506
Total operating expenses	**24,605,646**	**23,864,139**	**22,477,662**
Operating loss	**(7,760,293)**	**(6,486,644)**	**(9,129,434)**
Non-operating revenues (expenses):			
Passenger facility charges	1,558,602	1,742,877	2,160,681
Other grant revenue and contributions	4,612,402	601,875	687,432
Interest income	528,382	558,214	493,397
Stand-by costs	(4,469,631)	-	-
Interest expense	(3,485,643)	(3,462,247)	(2,974,460)
Other expense	(176,490)	-	(1,248,266)
Amortization of bond issue costs	(66,935)	(66,935)	(66,935)
Total non-operating revenues (expenses), net	**(1,499,313)**	**(626,216)**	**(948,151)**
Loss before capital contributions	**(9,259,606)**	**(7,112,860)**	**(10,077,585)**
Capital contributions	13,621,618	11,124,807	11,838,168
Changes in net assets	**4,362,012**	**4,011,947**	**1,760,583**
Net assets at beginning of year	160,062,593	156,050,646	154,290,063
Net assets at end of year	**$ 164,424,605**	**$ 160,062,593**	**$ 156,050,646**

Statements of Cash Flows

	2010	2009	2008
Cash flows from operating activities:			
Cash received from customers	$ 18,866,580	$ 17,233,828	$ 14,777,981
Cash payments to suppliers for goods and services	(6,200,238)	(6,640,176)	(4,822,896)
Cash payment to employees for services	(7,249,528)	(6,839,664)	(7,216,590)
Net cash provided by operating activities	**5,416,814**	**3,753,988**	**2,738,495**
Cash flows from noncapital financing activity:			
Other grant revenues and contributions	4,612,402	601,875	-
Net cash provided by noncapital financing activity	**4,612,402**	**601,875**	**-**
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(17,061,014)	(12,345,667)	(22,041,522)
Capital and other contributions received	11,511,754	9,587,982	14,225,428
Passenger facility charge receipts	1,558,602	1,742,877	2,160,681
Principal paid on revenue bond maturities	(1,395,000)	(2,330,000)	(1,265,000)
Payments on notes to related party	(82,570)	-	(223,105)
Interest paid on revenue bonds and note payable to related party	(3,345,617)	(3,273,724)	(3,462,596)
Net cash used for capital and related financing activities	**(8,813,845)**	**(6,618,532)**	**(10,606,114)**
Cash flows from investing activities:			
Net change in restricted investments	611,363	1,116,933	1,606,610
Interest income	528,382	558,214	493,397
Net cash provided by investing activities	**1,139,745**	**1,675,147**	**2,100,007**
Net change in cash	**2,355,116**	**(587,522)**	**(5,767,612)**
Cash at beginning of year	3,323,417	3,910,939	9,678,551
Cash at end of year	**$ 5,678,533**	**$ 3,323,417**	**$ 3,910,939**

CAPITAL ASSETS

At September 30, 2010, CPA had $195,240,319 invested in capital assets, net of depreciation where applicable, including land, runways, terminal and harbor facilities and equipment, fire and rescue equipment, general transportation, other machinery and equipment and numerous projects under construction. This represents a net increase of $3,785,326 or 2% over last year.

	2010	**2009**	**2008**
Runway and improvements	$ 96,118,668	$ 92,032,286	$ 92,331,622
Other improvements	26,129,646	25,396,866	16,258,401
Terminal facilities and equipment	104,238,578	103,920,048	100,721,909
Harbor facilities	63,635,195	63,626,755	62,101,850
Grounds maintenance and shop equipment	509,692	509,692	509,692
Fire and rescue equipment	11,521,619	11,521,619	11,506,180
Office furniture and fixtures	1,038,691	997,181	905,497
General transportation	1,047,265	1,044,811	1,010,798
Other	2,394,909	2,394,591	2,394,591
	306,634,263	301,443,849	287,740,540
Less accumulated depreciation	(150,680,225)	(139,026,978)	(127,547,389)
Total capital assets being depreciated	155,954,038	162,416,871	160,193,151
Construction in progress	38,821,852	28,573,693	30,089,905
Land	464,429	464,429	464,429
Total capital assets, net	$ 195,240,319	$ 191,454,993	$ 190,747,485

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, 2010, 2009 and 2008 are as follows:

	2010	**2009**	**2008**
Airport			
Bond Reserve Fund	$ 1,568,337	$ 1,561,455	$ 1,555,389
Bond Fund	360,606	301,639	284,982
Maintenance and Operation	858,474	659,972	464,713
Revenue Fund	724	723	448,588
Optional Redemption Fund	12,100	12,087	-
Construction Fund	-	-	998,519
	2,800,241	2,535,876	3,752,191
Seaport			
Bond Reserve Fund	3,479,556	3,480,131	3,478,814
Supplemental Reserve Fund	8,034,239	8,037,480	8,038,346
Reimbursement Fund	5,807	5,806	5,806
Bond Fund	682,368	648,748	489,094
Maintenance and Operation	382,751	756,957	493,610
Construction Fund	8,876	540,204	557,219
Interest	-	-	69,468
Revenue Fund	811	810	238,397
	12,594,408	13,470,136	13,370,754
Total	**$ 15,394,649**	**$ 16,006,012**	**$ 17,122,945**

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 $470,000. The long-term portion of the bond balance, as of September 30, 2010 is $14,460,000.

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 $840,000. The long-term portion of the bond balance as of September 30, 2010 is $26,060,000.

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 $175,000. The long-term portion of the bond balance as of September 30, 2010 is $6,580,000.

Note Payable to the Commonwealth Development Authority (CDA)

As of September 30, 2010, CPA has a promissory note of $5,721,040 due to CDA (a component unit of the CNMI), with interest at 2.5% per annum and a maturity date of June 15, 2030. Principal and interest payments in the amount of $31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling $546,679 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first and, accordingly, is presented as long-term in the accompanying financial statements. The current portion of the note is $236,814. The long-term portion of the note as of September 30, 2010 is $5,484,226. 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, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
1998 Senior Series A Bonds - Airport	$ 14,930,000	$ 15,375,000	$ 16,810,000
1998 Senior Series A Bonds - Seaport	$ 26,900,000	$ 27,685,000	$ 28,428,000
2005 Senior Series A Bonds - Seaport	$ 6,755,000	$ 6,920,000	$ 7,075,000
Note payable to CDA	$ 5,721,040	$ 5,803,610	$ 5,803,610

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

	2010	2009	2008
Airport	$ 10,919,929	$ 11,129,243	$ 8,630,320
Seaport	6,549,378	6,262,543	5,169,137
	$ 17,469,307	$ 17,391,786	$ 13,799,457

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. 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 2010 and allowing for revenue growth. This has allowed the Seaports to achieve compliance with a reasonable excess to mitigate unanticipated, but necessary, costs. However, the effect was not as great at the Airports. This was due to the declining arrivals from Japan and Korea and the fact that the scheduled airlines have been cutting their seat capacity and suspending flights during slow periods of the year. However, management did not believe that another increase in fees was appropriate due to the already "soft" and elastic nature of the travel market. Accordingly, CPA implemented strict austerity measures for 2010 to reduce work hours and employee benefits. Additionally, an independent consultant was hired to monitor the 2010 and 2011 revenues and expenses in order to make adjustments as needed to comply with the Airport bond indenture.

Airport and Seaport Combined Operating Expenses

	2010	2009	2008
Airport			
Personnel expense	$ 6,522,361	$ 6,139,107	$ 5,924,474
Maintenance and operations expense	4,291,192	4,183,403	4,309,587
	10,813,553	10,322,510	10,234,061
Seaport			
Personnel expense	760,630	675,490	1,082,268
Maintenance and operations expense	1,356,167	1,386,550	1,471,111
	2,116,797	2,062,040	2,553,379
Combined operating expenses	**$ 12,930,350**	**$ 12,384,550**	**$ 12,787,440**

FY2010 BOND INDENTURE COMPLIANCE

FY2010 Bond/Debt Ratio Noncompliance

	Airport			Seaport		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
Required revenues for bond compliance	$ 12,667,624	$ 12,188,947	$ 12,287,723	$ 6,535,929	$ 6,170,156	$ 6,727,176
Actual revenues collected:						
Revenues and other income	10,919,929	11,129,243	8,630,320	6,549,378	6,262,543	5,169,137
Other grant revenue and contributions	240,760	601,875	-	-	-	-
Interest income	262,274	294,046	188,101	266,108	264,168	305,296
Passenger facility charge	1,558,602	445,439	446,049	-	-	-
	12,981,565	12,470,603	9,264,470	6,815,486	6,526,711	5,474,433
Variance (noncompliance)	$ 313,941	$ 281,656	$ (3,023,253)	$ 279,557	$ 356,555	$ (1,252,743)

As illustrated in the above table, CPA was able to achieve Bond Indenture coverage requirements at both its Airport and Seaport Divisions. As stated previously, the FY2011 revenues and expenses are being monitored on a quarterly basis so that proactive steps can be taken to ensure that compliance is maintained. Moreover, this is being carried over into the next fiscal year in order 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 years 2010 and 2009, management designated passenger facility charges and other grant revenues and contributions as part of gross revenues for purposes of calculating the debt coverage ratios. For fiscal year 2010, one hundred percent of passenger facility charges were included in gross revenues. For fiscal year 2009 only passenger facility charges eligible for debt service were included.

REVENUE-BASED STATISTICS

AIRPORT DIVISION

Saipan	**Enplaned Passengers**	**Deplaned Passengers**	**Landing Weights**
FY 2008	460,933	460,437	714,481,700
FY 2009	418,296	425,982	737,391,020
FY 2010	429,401	422,542	712,173,491
FY 2011 Forecast	430,333	422,685	665,627,520
Rota			
FY 2008	19,048	18,589	46,679,420
FY 2009	19,663	20,254	51,269,310
FY 2010	15,515	18,708	46,504,840
FY 2011 Forecast	17,409	17,474	44,605,080
Tinian			
FY 2008	31,020	29,263	30,567,800
FY 2009	24,220	21,226	30,172,500
FY 2010	35,059	20,447	51,733,600
FY 2011 Forecast	32,837	32,892	47,721,500
All Airports			
FY 2008	511,001	508,289	791,728,920
FY 2009	462,179	467,462	818,832,830
FY 2010	479,975	461,697	810,411,931
FY 2011 Forecast	480,579	473,051	757,954,100

REVENUE-BASED STATISTICS, CONTINUED

SEAPORT DIVISION

Saipan	Revenue Tons Inbound	Outbound	Total
FY 2008	389,338	44,834	434,172
FY 2009	316,883	21,997	338,880
FY 2010	340,040	16,588	356,628
FY 2011 Forecast	344,512	16,682	361,194
Rota			
FY 2008	10,406	1,761	12,167
FY 2009	7,566	2,291	9,857
FY 2010	11,476	323	11,799
FY 2011 Forecast	10,450	435	10,885
Tinian			
FY 2008	33,790	3,448	37,238
FY 2009	15,979	736	16,715
FY 2010	11,978	2,926	14,904
FY 2011 Forecast	13,299	1,202	14,501

ECONOMIC OUTLOOK

The CPA 2011 combined revenue forecast indicates an estimated decrease of $329,595 or about 2% from $17,469,307 for 2010. The Airport aviation traffic for 2011 is forecasted to show about the same levels as in 2009, but the March 2011 earthquake disaster in Japan will likely have a negative effect on the forecast. The Seaport gross revenue tons for 2011 is forecasted to be also at the same level as in 2010. Overall, Seaport revenues are projected to approximate the amounts in 2010. Management will continue to closely monitor the Airport and Seaport operating expenses in order to maintain 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 monitoring of 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, 2009 is set forth in the report on the audit of CPA's financial statements, which is dated August 25, 2010. That Discussion and Analysis explains the major factors impacting the 2009 financial statements. If you have questions about this report or the 2009 or 2008 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, 2010 and 2009

ASSETS	2010	2009
Current assets:		
Cash	$ 5,678,533	$ 3,323,417
Receivables:		
Grantor agencies	5,169,090	3,059,226
Operations, net	2,786,832	3,939,412
Related party, net	2,184,929	1,559,377
Officers and employees	15,335	12,412
Prepaid expenses	75,321	85,312
Investments, restricted for construction and debt service purposes	15,394,649	16,006,012
Total current assets	31,304,689	27,985,168
Noncurrent assets:		
Deferred bond issue costs	1,327,427	1,394,362
Receivable from related party, net	1,691,084	2,642,340
Capital assets, net	195,240,319	191,454,993
Total noncurrent assets	198,258,830	195,491,695
	$ 229,563,519	$ 223,476,863
LIABILITIES AND NET ASSETS		
Current liabilities:		
Revenue bonds payable, current portion	$ 1,485,000	$ 1,395,000
Note payable to related party, current portion	236,814	87,640
Contractors payable	6,260,342	3,391,103
Trade and other payables	331,800	199,637
Due to related parties	1,743,912	1,884,561
Accrued expenses	2,436,667	2,289,296
Deferred income	20,601	-
Compensated absences, current portion	213,228	279,092
Total current liabilities	12,728,364	9,526,329
Accrued interest payable	546,679	450,085
Compensated absences, net of current portion	333,123	233,796
Revenue bonds payable, net of current portion	46,046,522	47,488,090
Note payable to related party, net of current portion	5,484,226	5,715,970
Total liabilities	65,138,914	63,414,270
Commitment and contingencies		
Net assets:		
Invested in capital assets, net of related debt	141,987,757	136,768,293
Restricted	15,394,649	16,006,012
Unrestricted	7,042,199	7,288,288
Total net assets	164,424,605	160,062,593
	$ 229,563,519	$ 223,476,863

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Aviation fees	$ 6,179,933	$ 6,501,451
Seaport fees	4,844,641	4,420,940
Concession and lease income	4,707,191	4,646,384
Other	1,737,542	1,823,011
	17,469,307	17,391,786
Less bad debts	(623,954)	(14,291)
Operating revenues, net	16,845,353	17,377,495
Operating expenses:		
Depreciation and amortization	11,675,296	11,479,589
Salaries and wages	5,633,462	5,157,000
Employee benefits	1,649,529	1,657,597
Insurance	1,623,922	1,630,022
Contractual services	1,446,401	981,942
Utilities	787,129	797,892
Supplies	448,214	404,144
Repairs and maintenance	303,071	469,686
Professional fees	222,816	268,399
Travel	72,585	58,287
Training	54,445	42,317
Promotion and advertising	36,632	36,481
Other	652,144	880,783
Total operating expenses	24,605,646	23,864,139
Operating loss	(7,760,293)	(6,486,644)
Non-operating revenues (expenses):		
Passenger facility charges	1,558,602	1,742,877
Interest income	528,382	558,214
Other grant revenues and contributions	4,612,402	601,875
Standby costs	(4,469,631)	-
Interest expense	(3,485,643)	(3,462,247)
Other expense	(176,490)	-
Amortization of bond issue costs	(66,935)	(66,935)
Total non-operating revenues (expenses), net	(1,499,313)	(626,216)
Loss before capital contributions	(9,259,606)	(7,112,860)
Capital contributions	13,621,618	11,124,807
Change in net assets	4,362,012	4,011,947
Net assets at beginning of year	160,062,593	156,050,646
Net assets at end of year	$ 164,424,605	$ 160,062,593

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 18,866,580	$ 17,233,828
Cash payments to suppliers for goods and services	(6,200,238)	(6,640,176)
Cash payments to employees for services	(7,249,528)	(6,839,664)
Net cash provided by operating activities	5,416,814	3,753,988
Cash flows from noncapital financing activity:		
Other grant revenues and contributions	4,612,402	601,875
Net cash provided by noncapital financing activity	4,612,402	601,875
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(17,061,014)	(12,345,667)
Capital and other contributions received	11,511,754	9,587,982
Passenger facility charge receipts	1,558,602	1,742,877
Principal paid on revenue bond maturities	(1,395,000)	(2,330,000)
Payments on note payable to related party	(82,570)	-
Interest paid on revenue bonds and note payable to related party	(3,345,617)	(3,273,724)
Net cash used for capital and related financing activities	(8,813,845)	(6,618,532)
Cash flows from investing activities:		
Net change in restricted investments	611,363	1,116,933
Interest income	528,382	558,214
Net cash provided by investing activities	1,139,745	1,675,147
Net change in cash	2,355,116	(587,522)
Cash at beginning of year	3,323,417	3,910,939
Cash at end of year	$ 5,678,533	$ 3,323,417
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (7,760,293)	$ (6,486,644)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	11,675,296	11,479,589
Bad debts	623,954	14,291
Other expense	(176,490)	-
(Increase) decrease in assets:		
Receivables - operations	528,626	(223,128)
Receivables - officers and employees	(2,923)	48,515
Prepaid expenses	9,991	2,061
Receivables - related parties	325,704	313,774
Increase (decrease) in liabilities:		
Accounts payable - trade and other	132,163	(79,020)
Accounts payable - related parties	(140,649)	(300,374)
Accrued expenses	147,371	(984,384)
Deferred income	20,601	(5,625)
Compensated absences	33,463	(25,067)
Net cash provided by operating activities	$ 5,416,814	$ 3,753,988

See accompanying notes to financial statements.

(1) Organization

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

(2) Summary of Significant Accounting Policies

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

Basis of Accounting

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

Budgets

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

Concentrations of Credit Risk

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

At September 30, 2010 and 2009, 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, 2010 and 2009, concentrations of credit risk result from receivables from significant customers and receivable from a related party which represent 42% and 44%, respectively, of total receivables. Management assesses the risk of loss and provides an allowance for doubtful accounts to compensate for known credit risk.

(2) Summary of Significant Accounting Policies, Continued

Cash

For the purposes of the statements of net assets and the statements of cash flows, cash is defined as cash on hand, demand deposits and savings. Short-term investment accounts established and set aside for construction and debt service purposes are separately classified as investments in the accompanying financial statements.

Capitalization of Interest

CPA capitalizes interest in order to recognize all costs associated with the non-contributed airport and seaport construction projects based on CPA's weighted average borrowing rate. No eligible interest was capitalized during the years ended September 30, 2010 and 2009 as management did not consider the amounts material to the accompanying financial statements. No interest is capitalized for projects financed with grant proceeds or Passenger Facility Charges.

Investments

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

Allowance for Doubtful Accounts

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

Capital Assets

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

Bond Discounts and Issuance Costs

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

Passenger Facility Charges

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

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

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

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

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

Defined Benefit Plan (DB Plan)

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

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarial contribution rate for fiscal year ended September 30, 2010 has yet to be determined. The actuarially determined contribution rate for the fiscal year ended September 30, 2009 is 60.8686% of covered payroll based on an actuarial valuation as of October 1, 2009 issued in May 2011. The established statutory rate at September 30, 2010 and 2009 is 37.3909% of covered payroll. CPA's recorded DB contributions to the Fund for the years ended September 30, 2010, 2009 and 2008 were $1,435,790, $1,474,731 and $1,818,905, respectively, equal to the required statutory contributions for each year.

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. CPA has recorded a liability of $25,201 at September 30, 2010 related to an assessed penalty.

(2) Summary of Significant Accounting Policies, Continued

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. CPA is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. CPA's recorded DC contributions for the years ended September 30, 2010, 2009 and 2008 were $49,888, $39,374 and $3,303, 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, 2010 and 2009, 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.

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, 2010 and 2009 is $546,351 and $512,888, respectively.

(2) Summary of Significant Accounting Policies, Continued

Operating and Non-Operating Revenues and Expenses

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

New Accounting Standards

During fiscal year 2010, CPA implemented the following pronouncements:

- GASB 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.

- GASB 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.

- GASB 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.

- GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code, and establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

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

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 does not believe that the implementation of this statement will have a material effect on the financial statements of CPA.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The provisions of Statement 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPA.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The provisions of this statement are effective for periods beginning after June 15, 2010. Management has not evaluated the effect 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 2009 balances in the accompanying financial statements have been reclassified to conform to the 2010 presentation.

(3) Deposits and Investments

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

(3) Deposits and Investments, Continued

Deposits

As of September 30, 2010 and 2009, total cash was $5,678,533 and $3,323,417, respectively, and the corresponding bank balances were $5,716,888 and $3,360,187, respectively. Of the bank balance amounts, $5,716,888 and $3,360,187, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2010 and 2009, bank deposits in the amount of $250,000 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:

	2010	2009
Airport Division		
Bond Reserve Fund	$ 1,568,337	$ 1,561,455
Bond Fund	360,606	301,639
Maintenance and Operation	858,474	659,972
Revenue Fund	724	723
Optional Redemption Fund	12,100	12,087
	2,800,241	2,535,876
Seaport Division		
Bond Reserve Fund	3,479,556	3,480,131
Supplemental Reserve Fund	8,034,239	8,037,480
Reimbursement Fund	5,807	5,806
Bond Fund	682,368	648,748
Maintenance and Operation	382,751	756,957
Construction Fund	8,876	540,204
Revenue Fund	811	810
	12,594,408	13,470,136
	$ 15,394,649	$ 16,006,012

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

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

(3) Deposits and Investments, Continued

Investments, Continued

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, 2010 and 2009, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2010 and 2009, investments at fair value consist of investments in U.S. Government money market placements and mutual funds.

(4) Receivables From Federal Grantor Agencies

Receivables from federal grantor agencies as of September 30, 2010 and 2009, are as follows:

	2010	2009
U.S. Department of Transportation	$ 4,596,092	$ 2,489,893
U.S. Department of Homeland Security	432,468	232,092
U.S. Department of the Interior	-	140,849
Passed through from the CNMI Government	140,530	217,892
Other	-	(21,500)
	$ 5,169,090	$ 3,059,226

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, China and Korea. CPA's accounts receivable from operations as of September 30, 2010 and 2009, are as follows:

	2010	2009
Accounts receivable	$ 4,350,501	$ 5,205,576
Less allowance for doubtful accounts	(1,563,669)	(1,266,164)
	$ 2,786,832	$ 3,939,412

(6) Capital Assets

Capital asset balances consist of the following as of September 30, 2010 and 2009:

	Estimated Useful Lives	Balance October 1, 2009	Increases	Decreases	Balance September 30, 2010
Assets not being depreciated:					
Construction in progress		$ 28,573,693	$ 15,074,109	$ (4,825,950)	$ 38,821,852
Land		464,429	-	-	464,429
Total capital assets not being depreciated		29,038,122	15,074,109	(4,825,950)	39,286,281
Capital assets being depreciated:					
Runway and improvements	20 years	92,032,286	4,086,382	-	96,118,668
Other improvements	3 - 10 years	25,396,866	732,780	-	26,129,646
Terminal facilities	20 years	93,489,099	26,328	-	93,515,427
Terminal equipment	2 - 10 years	10,430,949	292,202	-	10,723,151
Harbor facilities	20 years	63,626,755	8,440	-	63,635,195
Grounds maintenance and shop equipment	2 - 5 years	509,692	-	-	509,692
Fire and rescue equipment	2 - 8 years	11,521,619	-	-	11,521,619
Office furniture and fixtures	2 - 10 years	997,181	41,510	-	1,038,691
General transportation	3 - 5 years	1,044,811	24,999	(22,545)	1,047,265
Other	3 - 5 years	2,394,591	318	-	2,394,909
		301,443,849	5,212,959	(22,545)	306,634,263
Less accumulated depreciation		(139,026,978)	(11,675,296)	22,049	(150,680,225)
Total capital assets being depreciated		162,416,871	(6,462,337)	(496)	155,954,038
Total capital assets, net		$ 191,454,993	$ 8,611,772	$ (4,826,446)	$ 195,240,319

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

(6) Capital Assets, Continued

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.

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, 2010 and 2009, consist of the following:

	2010	2009
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2011 and 2028 are listed below.	$ 14,930,000	$ 15,375,000
Current portion	470,000	445,000
Long-term portion	$ 14,460,000	$ 14,930,000

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

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

(7) Revenue Bonds Payable, Continued

Airport Division, Continued

Year ending September 30,	Principal	Interest	Total
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	600,000	785,000	1,385,000
2016 - 2020	3,620,000	3,292,500	6,912,500
2021 - 2025	4,900,000	1,971,563	6,871,563
2026 - 2028	3,740,000	360,313	4,100,313
	$ 14,930,000	$ 9,892,814	$ 24,822,814

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, 2010 and 2009, consist of the following:

	2010	2009
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2011 and 2028 are listed below.	$ 26,900,000	$ 27,685,000
Special Revenue Bonds, tax exempt, 2005 Senior Series A: interest and annual installments payable to the Bond Trustee between 2011 and 2031 are listed below.	6,755,000	6,920,000
Deferred costs of debt refunding on 1998 Senior Series A bonds	(953,106)	(991,758)
Discount on 2005 Senior Series A bonds	(100,372)	(105,152)
	32,601,522	33,508,090
Current portion	1,015,000	950,000
Long-term portion	$ 31,586,522	$ 32,558,090

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

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

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

Year ending September 30,	Principal	Interest	Total
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	1,295,000	1,820,060	3,115,060
2016 - 2020	7,790,000	7,704,785	15,494,785
2021 - 2025	10,560,000	4,780,023	15,340,023
2026 - 2030	9,035,000	1,157,503	10,192,503
2031	525,000	14,437	539,437
	$ 33,655,000	$ 23,515,388	$ 57,170,388

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, 2010 and 2009, total deposits in the Seaport supplemental reserve fund amounted to $8,034,239 and $8,037,480, 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:

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

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

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, 2010 and 2009 amounted to $12,100 and $12,087, respectively.

c) Insurance or condemnation award - At the option of CPA, prior to their stated maturity as a whole or in part by lot, the 1998 Senior Bonds for the airport and seaport are subject to redemption from the proceeds of any insurance or condemnation awards received by CPA due to a casualty loss or governmental taking of CPA’s airport and seaport facilities, if such proceeds are not used to repair or replace such facilities under the circumstances and upon the conditions prescribed in Section 6.17 at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

d) Mandatory sinking account - The 1998 Senior Bonds for the airport and seaport are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity upon payment of the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium.

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

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

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

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

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

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

d) Mandatory sinking account - The 2005 Senior Series A Bonds maturing are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.

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 $81,993,202 and $86,512,601 at September 30, 2010 and 2009, respectively. Pledged gross revenues received during the years ended September 30, 2010 and 2009 were $17,469,307 and $17,391,786, respectively. Debt service payments during the years ended September 30, 2010 and 2009 amounted to $4,519,399 and $5,603,212 representing 26% and 32%, respectively, of pledged gross revenues.

(7) Revenue Bonds Payable, Continued

Pledge of Future Revenues, Continued

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, 2010 and 2009. Section 6.11 of the Airport and Seaport Bond Indenture Agreements (Indenture) states that CPA shall impose, levy, enforce and collect such dockage, entry and wharfage fees, tariffs, lease rentals, licensing fees and other fees and charges in an aggregate amount with respect to each fiscal year to produce gross revenues of 125% of debt service requirements. Management of CPA has determined that gross revenues consist of total operating revenues, other grant revenue and contributions, interest income and passenger facility charges to meet the indenture requirements. For fiscal year 2010, management of CPA determined that 100% of passenger facility charges would be considered as gross revenues for these purposes. For fiscal year 2009, only passenger facility charges deemed eligible for debt service were considered as gross revenues for these purposes.

Changes in long-term liabilities for the years ended September 30, 2010 and 2009, are as follows:

	Balance October 1, 2009	Additions	Reductions	Balance September 30, 2010	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	$ 15,375,000	$ -	$ (445,000)	$ 14,930,000	$ 470,000
Seaport 1998 Senior Series A	27,685,000	-	(785,000)	26,900,000	840,000
Seaport 2005 Senior Series A	6,920,000	-	(165,000)	6,755,000	175,000
Note payable	5,803,610	-	(82,570)	5,721,040	236,814
Deferred amounts:					
Deferred costs of debt refunding	(991,758)	-	38,652	(953,106)	-
Discount on bonds	(105,152)	-	4,780	(100,372)	-
	54,686,700	-	(1,434,138)	53,252,562	1,721,814
Other:					
Compensated absences	512,888	383,188	(349,725)	546,351	213,228
Accrued interest	450,085	229,681	(133,087)	546,679	-
	$ 55,649,673	$ 612,869	$ (1,916,950)	$ 54,345,592	$ 1,935,042

	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
Other:					
Compensated absences	537,955	404,583	(429,650)	512,888	279,092
Accrued interest	304,994	145,091	-	450,085	-
	$ 57,816,217	$ 549,674	$ (2,716,218)	$ 55,649,673	$ 1,761,732

(8) Note Payable to Related Party

CPA's note payable is as follows:

	2010	2009
Promissory note due to the Commonwealth Development Authority (CDA) (a component unit of the CNMI), interest at 2.5% per annum, with maturity date of June 15, 2030. Principal and interest payments in the amount of $31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling $546,679 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first and, accordingly, is presented as long-term in the accompanying financial statements.	$ 5,721,040	$ 5,803,610
Current portion	236,814	87,640
Long-term portion	$ 5,484,226	$ 5,715,970

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:

Year ending September 30,	Principal	Interest	Total
2011	$ 236,814	$ 140,256	$ 377,070
2012	237,605	134,395	372,000
2013	243,613	128,387	372,000
2014	249,774	122,226	372,000
2015	256,090	115,910	372,000
2016 - 2020	1,380,931	479,069	1,860,000
2021 - 2025	1,564,597	295,403	1,860,000
2026 - 2030	1,551,616	635,179	2,186,795
	$ 5,721,040	$ 2,050,825	$ 7,771,865

(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, 2010 and 2009, and the related receivable and payable balances, are as follows:

	2010			
	Revenues and Capital Contributions	Expenses	Receivables	Payables
Commonwealth Development Authority	$ -	$ 133,087	$ -	$ -
Commonwealth Utilities Corporation	-	787,129	3,876,013	-
CNMI Government	135,201	120,857	-	1,718,711
Northern Mariana Islands Retirement Fund	-	1,485,678	-	25,201
	$ 135,201	$ 2,526,751	$ 3,876,013	$ 1,743,912

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

A note payable to CDA amounted to $5,721,040 and $5,803,610 at September 30, 2010 and 2009, respectively. Interest expense on this note for the years ended September 30, 2010 and 2009 amounted to $133,087 and $145,091, 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, made all payments on 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, 2010 and 2009, the receivable from CUC amounted to $3,716,764 and $4,120,943, 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, 2010 and 2009 amounted to $133,096 and $130,320, respectively. Due to the potential uncollectability of the remaining amount due, the remaining receivable has been fully allowed for. Accrued interest at September 30, 2010 and 2009 amounted to $159,249 and $80,774, respectively.

(10) Related Party Transactions, Continued

As of September 30, 2010 and 2009, CPA has liabilities of $25,201 and $286,706, respectively, to the Northern Mariana Islands Retirement Fund related to the increase in employer contribution rate from 24% to 36.77%.

CPA recorded contributions of $135,201 and $212,564 from the CNMI government during the years ended September 30, 2010 and 2009, respectively. The amount due to the CNMI government relates to the 1% Public Auditor fee of $1,718,711 and $1,597,855 at September 30, 2010 and 2009, 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 forty-eight years and in most instances contain provisions for percentage rent. Concession and lease income for the years ended September 30, 2010 and 2009, amounted to $4,707,191 and $4,646,384, respectively. Minimum future lease income is as follows:

Year ending September 30,	Minimum Lease Income Due
2011	$ 2,360,100
2012	1,940,086
2013	1,788,917
2014	1,671,145
2015	1,343,070
2016 - 2020	4,125,397
2021 - 2025	1,913,044
2026 - 2030	574,038
2031 - 2035	434,857
2036 - 2040	97,674
2041 - 2045	107,932
2046 - 2048	46,830
	$ 16,403,090

Contingencies

CPA incurred a combined loss before capital contributions from its two divisions of $9,259,606 and $7,112,860 during the years ended September 30, 2010 and 2009, respectively. Management's plans to increase revenues and/or decrease costs are as follows:

a) Continue implementation of cost cutting measures.
b) Explore non-aviation revenue generating options.
c) Explore non-harbor revenue generating options.

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

(11) Commitment and Contingencies, Continued

Contingencies, Continued

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, 2010. 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.

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, Russia, China and Korea. Seaport fees received by CPA are primarily comprised of wharfage fees on cargo from the CNMI, Japan, United States, the Philippines and other Asian countries. Lease revenue is derived primarily from Saipan International Airport's prime concessionaire who is located in the CNMI.

During the years ended September 30, 2010 and 2009, three customers accounted for 61% of the total operating revenues of the Airport Division, and one customer accounted for 18% and 21% of the total operating revenues of the Seaport Division during the years ended September 30, 2010 and 2009, 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, 2010 and 2009, the remaining accrued expenses total $1,720,478.

(14) Subsequent Event

On January 24, 2011, CPA and a contractor entered into a supplemental agreement for the payment of standby costs incurred by the contractor on a project totaling $5,908,354 covering the period from February 10, 2010 through December 14, 2010. The standby costs relate to equipment, labor and other indirect costs incurred by the contractor due to delays in the commencement of the project. During the year ended September 30, 2010, CPA recorded standby costs totaling $4,469,631 of which $4,371,642 is federally funded and, accordingly, is included in other grant revenues and contributions in the accompanying financial statements.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Net Assets
September 30, 2010

ASSETS	Airport Division	Seaport Division	Elimination	Total
Current assets:				
Cash	$ 3,913,688	$ 1,764,845	$ -	$ 5,678,533
Receivables:				
Grantor agencies	4,793,986	375,104	-	5,169,090
Operations, net	2,402,469	384,363	-	2,786,832
Related party, net	2,025,680	159,249	-	2,184,929
Due from Airport Division	-	96,166	(96,166)	-
Officers and employees	12,306	3,029	-	15,335
Prepaid expenses	75,321	-	-	75,321
Investments, restricted for construction and debt service purposes	2,800,241	12,594,408	-	15,394,649
Total current assets	16,023,691	15,377,164	(96,166)	31,304,689
Noncurrent assets:				
Deferred bond issue costs	472,713	854,714	-	1,327,427
Receivable from related party, net	1,691,084	-	-	1,691,084
Capital assets, net	149,068,818	46,171,501	-	195,240,319
Total noncurrent assets	151,232,615	47,026,215	-	198,258,830
	$ 167,256,306	$ 62,403,379	$ (96,166)	$ 229,563,519
LIABILITIES AND NET ASSETS				
Current liabilities:				
Revenue bonds payable, current portion	$ 470,000	$ 1,015,000	$ -	$ 1,485,000
Note payable to related party, current portion	-	236,814	-	236,814
Contractors payable	6,260,342	-	-	6,260,342
Trade and other payables	317,570	14,230	-	331,800
Due to related parties	1,499,398	244,514	-	1,743,912
Due to Seaport Division	96,166	-	(96,166)	-
Accrued expenses	594,799	1,841,868	-	2,436,667
Compensated absences, current portion	192,106	21,122	-	213,228
Deferred income	20,601	-	-	20,601
Total current liabilities	9,450,982	3,373,548	(96,166)	12,728,364
Accrued interest payable	-	546,679	-	546,679
Compensated absences, net of current portion	301,138	31,985	-	333,123
Revenue bonds payable, net of current portion	14,460,000	31,586,522	-	46,046,522
Note payable to related party, net of current portion	-	5,484,226	-	5,484,226
Total liabilities	24,212,120	41,022,960	(96,166)	65,138,914
Net assets:				
Invested in capital assets, net of related debt	134,138,818	7,848,939	-	141,987,757
Restricted	2,800,241	12,594,408	-	15,394,649
Unrestricted	6,105,127	937,072	-	7,042,199
Total net assets	143,044,186	21,380,419	-	164,424,605
	$ 167,256,306	$ 62,403,379	$ (96,166)	$ 229,563,519

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2010

	Airport Division	Seaport Division	Elimination	Total
Operating revenues:				
Aviation fees	$ 6,179,933	$ -	$ -	$ 6,179,933
Seaport fees	-	4,844,641	-	4,844,641
Concession and lease income	3,517,142	1,190,049	-	4,707,191
Other	1,222,854	514,688	-	1,737,542
	10,919,929	6,549,378	-	17,469,307
Less bad debts	(114,031)	(509,923)	-	(623,954)
Operating revenues, net	10,805,898	6,039,455	-	16,845,353
Operating expenses:				
Depreciation and amortization	8,975,036	2,700,260	-	11,675,296
Salaries and wages	5,027,488	605,974	-	5,633,462
Employee benefits	1,494,873	154,656	-	1,649,529
Insurance	658,579	965,343	-	1,623,922
Contractual services	1,293,844	152,557	-	1,446,401
Utilities	651,201	135,928	-	787,129
Supplies	432,478	15,736	-	448,214
Repairs and maintenance	285,194	17,877	-	303,071
Professional fees	207,785	15,031	-	222,816
Travel	59,319	13,266	-	72,585
Training	54,445	-	-	54,445
Promotion and advertising	35,832	800	-	36,632
Other	612,515	39,629	-	652,144
Total operating expenses	19,788,589	4,817,057	-	24,605,646
Operating (loss) income	(8,982,691)	1,222,398	-	(7,760,293)
Non-operating revenues (expenses):				
Passenger facility charges	1,558,602	-	-	1,558,602
Interest income	262,274	266,108	-	528,382
Other grant revenues and contributions	4,612,402	-	-	4,612,402
Standby costs	(4,469,631)	-	-	(4,469,631)
Interest expense	(1,004,318)	(2,481,325)	-	(3,485,643)
Other expense	(132,368)	(44,122)	-	(176,490)
Amortization of bond issue costs	(24,459)	(42,476)	-	(66,935)
Total non-operating revenues (expenses), net	802,502	(2,301,815)	-	(1,499,313)
Loss before capital contributions	(8,180,189)	(1,079,417)	-	(9,259,606)
Capital contributions	13,304,617	317,001	-	13,621,618
Change in net assets	5,124,428	(762,416)	-	4,362,012
Net assets at beginning of year	137,919,758	22,142,835	-	160,062,593
Net assets at end of year	$ 143,044,186	$ 21,380,419	$ -	$ 164,424,605

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2010

	Airport Division	Seaport Division	Elimination	Total
Cash flows from operating activities:				
Cash received from customers	$ 12,290,033	$ 6,576,547	$ -	$ 18,866,580
Cash payments to suppliers for goods and services	(4,333,330)	(1,866,908)	-	(6,200,238)
Cash payments to employees for services	(6,487,814)	(761,714)	-	(7,249,528)
Net cash provided by operating activities	1,468,889	3,947,925	-	5,416,814
Cash flows from noncapital financing activity:				
Other grant revenues and contributions	4,612,402	-	-	4,612,402
Net cash provided by noncapital financing activity	4,612,402	-	-	4,612,402
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(16,269,109)	(791,905)	-	(17,061,014)
Capital and other contributions received	11,511,754	-	-	11,511,754
Passenger facility charge receipts	1,558,602	-	-	1,558,602
Principal paid on revenue bond maturities	(445,000)	(950,000)	-	(1,395,000)
Payments on note payable to related party	-	(82,570)	-	(82,570)
Interest paid on revenue bonds and note payable to related party	(1,004,318)	(2,341,299)	-	(3,345,617)
Net cash used for capital and related financing activities	(4,648,071)	(4,165,774)	-	(8,813,845)
Cash flows from investing activities:				
Net change in restricted investments	(264,365)	875,728	-	611,363
Interest income	262,274	266,108	-	528,382
Net cash (used for) provided by investing activities	(2,091)	1,141,836	-	1,139,745
Net change in cash	1,431,129	923,987	-	2,355,116
Cash at beginning of year	2,482,559	840,858	-	3,323,417
Cash at end of year	$ 3,913,688	$ 1,764,845	$ -	$ 5,678,533
Reconciliation of operating (loss) income to net cash provided by operating activities:				
Operating (loss) income	$ (8,982,691)	$ 1,222,398	$ -	$ (7,760,293)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation and amortization	8,975,036	2,700,260	-	11,675,296
Bad debts	114,031	509,923	-	623,954
Other expense	(132,368)	(44,122)	-	(176,490)
(Increase) decrease in assets:				
Receivables - operations	422,982	105,644	-	528,626
Interdivisional accounts	525,266	(525,266)	-	-
Receivables - officers and employees	(2,923)	-	-	(2,923)
Prepaid expenses	9,603	388	-	9,991
Receivables - related parties	404,179	(78,475)	-	325,704
Increase (decrease) in liabilities:				
Accounts payable - trade and other	139,801	(7,638)	-	132,163
Accounts payable - related parties	(147,640)	6,991	-	(140,649)
Accrued expenses	88,465	58,906	-	147,371
Deferred income	20,601	-	-	20,601
Compensated absences	34,547	(1,084)	-	33,463
Net cash provided by operating activities	$ 1,468,889	$ 3,947,925	$ -	$ 5,416,814

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