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

REPORT ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE
WITH THE UNIFORM GUIDANCE

YEAR ENDED SEPTEMBER 30, 2017

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

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

Deloitte & Touche LLC
Isa Drive, Capitol Hill
P.O. Box 500308
Saipan, MP 96950-0308
CNMI

Tel: (670) 322-7337/8
Fax: (670) 322-7340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Ports Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), which comprise the statements of net position as of September 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Deloitte.

Basis for Qualified Opinion

Management has not adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which were effective October 1, 2014. In addition, management has not adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which were effective for fiscal years beginning after June 15, 2016, December 15, 2015 and June 16, 2016, respectively. As discussed in note 2 to the financial statements, CPA has not recorded pension expense and related net pension asset or liability, deferred inflows of resources and deferred outflows of resources as of and for the years ended September 30, 2017 and 2016. GASB Statements No. 68 and No. 71 require an employer to recognize its proportionate share of the collective pension expense, as well as the net pension asset or liability, deferred outflows of resources and deferred inflows of resources. GASB Statement No. 73 aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68, GASB Statement No. 78 addresses a practice issue regarding the scope and applicability of Statement No. 68 and GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The amount by which this departure would affect the assets and deferred outflows of resources, liabilities and deferred inflows of resources, net position and expenses of CPA has not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth Ports Authority as of September 30, 2017 and 2016, and the changes in its net position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise CPA's basic financial statements. The Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows as of and for the year ended September 30, 2017 (pages 36 through 38) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2019 on our consideration of the CPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CPA's internal control over financial reporting and compliance.

Deloitte & Touche LLC

January 18, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED SEPTEMBER 30, 2017

This section of the Commonwealth Ports Authority's (herein referred to as "CPA") audit report presents our discussion and analysis of CPA's activities and financial performance during the fiscal year ended September 30, 2017, with selected comparative information for the fiscal years ended September 30, 2016 and 2015. Please read it in conjunction with the detailed information contained within the accompanying financial statements.

INTRODUCTION

CPA is a component unit of the Government of the Commonwealth of the Northern Mariana Islands (CNMI) and was established as a public corporation on November 8, 1981 by CNMI Public Law 2-48. A seven-member Board of Directors appointed by the Governor to serve four-year terms governs CPA. CPA is a self-supporting organization and generates revenue 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 131 employees on Saipan, 26 employees on Rota and 26 employees on Tinian.

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

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

OVERVIEW OF FINANCIAL STATEMENTS, CONTINUED

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

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

FINANCIAL HIGHLIGHTS

Total assets and deferred outflows for the airport and seaport operations combined increased by 3% or $6,732,555 from $247,893,063 in FY2016 to $254,625,618 in FY2017 and by 2% or $5,235,978 from $242,657,085 in FY2015 to $247,893,063 in FY2016.

Net position for the airport and seaport operations combined increased by 3% or $5,521,277 from $189,679,985 in FY2016 to $195,201,262 in FY2017 and by 3% or $5,159,730 from $184,520,255 in FY2015 to $189,679,985 in FY2016. Net position represents the amount that total assets exceed total liabilities.

Operating revenues for the airport and seaport operations combined increased by 17% or $4,051,187 from $23,360,281 in FY2016 to $27,411,468 in FY2017 and by 6% or $1,304,881 from $22,055,400 in FY2015 to $23,360,281 in FY2016. Operating revenues for the Airport Division increased by 20% or $2,807,468 from $14,391,258 in FY2016 to $17,198,726 in FY2017 and decreased by 1% or $81,820 from $14,473,078 in FY2015 to $14,391,258 in FY2016. Operating revenues for the Seaport Division increased by 14% or $1,243,719 from $8,969,023 in FY2016 to $10,212,742 in FY2017 and by 18% or $1,386,701 from $7,582,322 in FY2015 to $8,969,023 in FY2016.

Operating expenses (excluding depreciation and amortization) for the airport and seaport operations combined increased by 19% or $2,671,065 from $14,434,526 in FY2016 to $17,105,591 in FY2017 mainly due to the increase in salaries and wages expenses due to the implementation of the new pay scale. Operating expenses increased by 4% or $552,660 from $13,881,866 in FY2015 to $14,434,526 in FY2016, mainly due to the increase in repairs and maintenance expenses arising from Typhoon Soudelor damages.

The Airport Division aviation revenue increased by $2,014,182 due to an increase in scheduled and chartered flights at the Saipan International Airport. The Airport Division was in compliance with its Bond Indenture for FY2017 and expects to be in compliance with the Agreement for FY2018.

The Seaport Division performed a rate study in 2008, which resulted in a tariff increase in March 2009. This was performed due to the departure of the garment industry and the drastic decline in port revenue tons. It was through this effort that revenues increased in order to be in compliance with the Bond Indenture Agreement for 2009 and thereafter. In FY2017, the Seaport Division seaport fees increased by $1,023,834 due to an increase in revenue tonnage. The Seaport Division was in compliance with its 1998 and 2005 Bond Indenture Agreements (the Agreements) for FY2017. CPA expects the Seaport Division to be in compliance with the Agreement for FY2018.

On October 24, 2018, the islands of Saipan and Tinian were devastated by Typhoon Yutu. Damages sustained by the Saipan Airport include six jet ways being declared unusable. The jet ways are valued at $2,000,000 each, three of which will be replaced by the FAA. CPA is unable to determine the extent of other airport property damages. CPA does not perceive a debt service issue related to the damages. There are no other material ramifications.

FINANCIAL HIGHLIGHTS, CONTINUED

Combined Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows as of and for the year ended September 30, 2017 follows, with comparative information as of and for the years ended September 30, 2016 and 2015:

Statements of Net Position

	2017	2016	2015
Assets and Deferred Outflows			
Current assets:			
Cash	$ 38,103,823	$ 30,779,472	$ 23,831,433
Receivables	7,167,750	7,369,857	5,836,880
Prepaid expenses	1,010,033	544,410	1,384,056
Investments, restricted for debt service and other purposes	21,784,087	19,934,862	18,681,827
Total current assets	68,065,693	58,628,601	49,734,196
Nondepreciable capital assets	70,238,902	69,611,633	68,223,246
Depreciable capital assets, net of accumulated depreciation and amortization	115,676,035	118,953,043	123,947,751
Deferred outflows from cost of refunding debt	644,988	699,786	751,892
Total assets and deferred outflows	$ 254,625,618	$ 247,893,063	$ 242,657,085
Liabilities and Net Position			
Current liabilities:			
Revenue bonds payable, current portion	$ 2,285,000	$ 2,135,000	$ 2,010,000
Note payable to related party, current portion	275,813	272,548	262,477
Contractors payable	4,935,328	6,004,176	6,421,569
Trade and other payables	889,973	1,430,949	439,244
Due to related parties	11,482,310	6,673,506	3,782,438
Accrued expenses	934,139	625,164	564,032
Unearned revenues	101,927	84,838	1,243,154
Compensated absences, current portion	243,231	236,181	232,125
Total current liabilities	21,147,721	17,462,362	14,955,039
Noncurrent liabilities:			
Accrued interest payable	546,679	546,679	546,679
Compensated absences, net of current portion	366,445	282,854	314,503
Revenue bonds payable, net of current portion	33,668,306	35,953,306	38,083,526
Notes payable to related party, net of current portion	3,695,205	3,967,877	4,237,083
Total noncurrent liabilities	38,276,635	40,750,716	43,181,791
Total liabilities	59,424,356	58,213,078	58,136,830
Net position:			
Net investment in capital assets	146,635,600	146,935,731	148,329,803
Restricted	21,784,087	19,934,862	18,681,827
Unrestricted	26,781,575	22,809,392	17,508,625
Total net position	195,201,262	189,679,985	184,520,255
Total liabilities and net position	$ 254,625,618	$ 247,893,063	$ 242,657,085

Statements of Revenues, Expenses and Changes in Net Position

	2017	2016	2015
Operating revenues:			
Aviation fees	$ 9,914,685	$ 7,900,503	$ 7,713,993
Seaport fees	8,166,633	7,142,799	5,536,134
Concession and lease income	7,114,103	6,386,783	6,955,113
Other	2,216,047	1,930,196	1,850,160
	27,411,468	23,360,281	22,055,400
(Bad debts) recoveries	(2,271,767)	(1,910,174)	268,653
Operating revenues, net	25,139,701	21,450,107	22,324,053
Operating expenses:			
Depreciation and amortization	12,412,848	12,322,370	12,442,982
Salaries and wages	6,086,674	5,105,607	5,198,313
Utilities	4,039,544	2,878,736	2,736,581
Contractual services	1,321,856	1,550,223	1,445,210
Employee benefits	1,014,372	721,147	619,011
Insurance	932,169	1,196,138	1,151,913
Supplies	894,335	595,467	548,579
Repairs and maintenance	862,326	1,113,196	603,868

FINANCIAL HIGHLIGHTS, CONTINUED

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

	2017	2016	2015
Operating expenses, continued:			
Penalties and interest	752,952	-	-
Fuel	272,658	329,709	737,746
Travel	248,367	248,051	104,651
Professional fees	230,615	230,264	295,263
Promotion and advertising	55,561	62,944	43,257
Training	10,719	4,480	-
Other	383,443	398,564	397,474
Total operating expenses	29,518,439	26,756,896	26,324,848
Operating loss	(4,378,738)	(5,306,789)	(4,000,795)
Non-operating revenues (expenses):			
Passenger facility charges	3,241,045	2,591,466	2,463,032
Settlement income	1,481,259	1,282,087	-
Interest income	636,078	281,766	257,444
Other grant revenues and contributions	220,361	243,098	239,182
Insurance proceeds	-	1,201,796	1,617,377
Recovery of liability due to related party	-	-	597,133
Interest expense	(2,176,565)	(2,404,973)	(2,566,643)
Total non-operating revenues, net	3,402,178	3,195,240	2,607,525
Loss before capital contributions	(976,560)	(2,111,549)	(1,393,270)
Capital contributions	6,497,837	7,271,279	7,671,967
Change in net position	5,521,277	5,159,730	6,278,697
Net position at beginning of year	189,679,985	184,520,255	178,241,558
Net position at end of year	$ 195,201,262	$ 189,679,985	$ 184,520,255

Statements of Cash Flows

	2017	2016	2015
Cash flows from operating activities:			
Cash received from customers	$ 25,131,261	$ 19,434,211	$ 20,112,680
Cash payments to suppliers for goods and services	(5,904,982)	(3,825,127)	(9,054,161)
Cash payments to employees for services	(7,010,406)	(5,854,347)	(5,817,324)
Net cash provided by operating activities	12,215,873	9,754,737	5,241,195
Cash flows from noncapital financing activity:			
Other grant revenues and contributions	220,361	243,098	239,182
Net cash provided by noncapital financing activity	220,361	243,098	239,182
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(11,113,741)	(8,889,184)	(9,572,082)
Capital and other contributions received	6,737,090	6,596,788	8,384,892
Proceeds from settlement	1,481,259	1,282,087	-
Insurance proceeds	-	1,201,796	1,617,377
Passenger facility charge receipts	3,241,045	2,591,466	2,463,032
Principal paid on revenue bond maturities	(2,080,202)	(2,010,000)	(1,895,000)
Payments on note payable to related party	(269,407)	(259,135)	(257,879)
Interest paid on revenue bonds and note payable to related party	(1,894,780)	(2,592,345)	(2,727,503)
Net cash used for capital and related financing activities	(3,898,736)	(2,078,527)	(1,987,163)
Cash flows from investing activities:			
Net investment purchases, restricted	(1,849,225)	(1,253,035)	(763,546)
Interest income	636,078	281,766	257,444
Net cash used for investing activities	(1,213,147)	(971,269)	(506,102)
Net change in cash	7,324,351	6,948,039	2,987,112
Cash at beginning of year	30,779,472	23,831,433	20,844,321
Cash at end of year	$ 38,103,823	$ 30,779,472	$ 23,831,433

CAPITAL ASSETS

At September 30, 2017, CPA had $185,914,937 net investment 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 decrease of $2,649,739 or 1% from the last fiscal year.

	2017	2016	2015
Runway and improvements	$ 114,111,144	$ 114,151,817	$ 113,856,055
Other improvements	27,264,182	27,165,860	26,781,393
Terminal facilities and equipment	120,032,862	113,260,733	111,230,153
Harbor facilities	63,601,422	63,601,422	63,601,422
Grounds maintenance and shop equipment	1,706,068	1,614,350	349,210
Fire and rescue equipment	12,820,704	13,975,107	11,569,219
Office furniture and fixtures	2,242,428	1,622,449	1,263,766
General transportation	1,291,942	1,160,148	1,153,346
Other	2,725,702	2,715,908	2,693,608
	345,796,454	339,267,794	332,498,172
Less accumulated depreciation	(230,120,419)	(220,314,751)	(208,550,421)
Total capital assets being depreciated	115,676,035	118,953,043	123,947,751
Construction in progress	69,774,473	69,147,204	67,758,817
Land	464,429	464,429	464,429
Total capital assets, net	$ 185,914,937	$ 188,564,676	$ 192,170,997

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, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Airport			
Bond Reserve Fund	$ 1,607,032	$ 1,596,834	$ 1,591,970
Bond Fund	496,201	466,163	832,110
Maintenance and Operation	4,561,232	3,511,240	2,001,170
Revenue Fund	726	724	724
Optional Redemption Fund	12,136	12,104	12,102
	6,677,327	5,587,065	4,438,076
Seaport			
Bond Reserve Fund	3,481,367	3,479,889	3,479,833
Supplemental Reserve Fund	7,991,935	7,991,935	7,991,935
Reimbursement Fund	5,825	5,809	5,808
Bond Fund	1,049,637	998,807	1,683,890
Maintenance and Operation	2,569,984	1,863,366	1,074,295
Construction Fund	7,199	7,180	7,179
Reserve Fund	813	811	811
	15,106,760	14,347,797	14,243,751
Total	$ 21,784,087	$ 19,934,862	$ 18,681,827

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.

LONG-TERM DEBT, CONTINUED

1998 Airport Revenue Bonds, Continued

Payments for the Airport bond are current. The current portion of the Airport bond principal is $730,000. The long-term portion of the bond balance as of September 30, 2017 is $10,215,000.

This 1998 bond was partially used to refund an outstanding $8,250,000 1987 Series B tax-exempt bond. The bond refunding consolidated the existing bonds with new bonds to finance various airport projects and to reduce total future debt service payments through lower interest rates. The reacquisition price exceeded the net carrying amount of the old debt by $503,906 which was fully amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $688,620 and an increase of $7,616,151 in future debt service payments.

1998 Seaport Revenue Bonds

On March 26, 1998, CPA issued a 1998 Series A $33,775,000 tax-exempt revenue bond. Interest is 6.6%, payable on March 15 and September 15 of each year, commencing September 1998 and ending in the year 2031.

Payments for the 1998 Seaport bond are current. The current portion of the 1998 Seaport bond principal is $1,295,000. The long-term portion of the bond balance as of September 30, 2017 is $18,485,000.

The Seaport bond proceeds were partially used for a current refunding of $22,470,000 1995 Series A tax-exempt seaport revenue bonds. The refunding consolidated existing debt with new debt issued to finance various seaport projects and to reduce total debt service payments in the future. The reacquisition price exceeded the net carrying amount of the old debt by $1,345,593 which was recorded as a deferred outflow from cost of refunding debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $1,724,777 and a decrease of $6,983,345 in future debt service payments.

2005 Seaport Revenue Bonds

On September 21, 2005, CPA issued another Senior Series A tax-exempt revenue bond in the amount of $7,225,000 for the primary purpose of financing the paving of the container yard area of the seaport. Pursuant to Section 2.04 (A)(9) of the 1998 Senior Series A Seaport Revenue Bond Indenture Agreement, CPA entered into a Second Supplemental Indenture for the bonds at an interest rate of 5.5%, payable on March 15 and September 15 of each year. Payments commenced on March 15, 2008.

Payments for the 2005 Seaport bond are current. The current portion of the 2005 Seaport bond principal is $260,000. The long-term portion of the bond balance as of September 30, 2017 is $5,040,000.

Note Payable to the Commonwealth Development Authority (CDA)

As of September 30, 2017, CPA has a promissory note of $3,971,018 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 $275,813. The long-term portion of the note as of September 30, 2017 is $3,695,205. 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, 2017, 2016 and 2015 is as follows:

	2017	2016	2015
1998 Senior Series A Bonds - Airport	$ 10,945,000	$ 11,620,000	$ 12,260,000
1998 Senior Series A Bonds - Seaport	$ 19,780,000	$ 20,995,000	$ 22,135,000
2005 Senior Series A Bonds - Seaport	$ 5,300,000	$ 5,545,000	$ 5,775,000
Note payable to CDA	$ 3,971,018	$ 4,240,425	$ 4,499,560

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

	2017	2016	2015
Airport	$ 17,198,726	$ 14,391,258	$ 14,473,078
Seaport	10,212,742	8,969,023	7,582,322
	$ 27,411,468	$ 23,360,281	$ 22,055,400

The Airport Division's operating revenues increased in FY2017 as compared to FY2016. The increase was mainly due to an increase in aviation revenues. The Seaport Division experienced an increase in operating revenues in FY2017 as compared to FY2016 due to a growth in revenue tonnage and harbor activity in general.

The CPA Board of Directors implemented an increase of fees for the Airports that took effect in June of 2008. Additionally, an increase to the tariff for the Seaports was approved and implemented in March 2009. These increases in fees had a major impact on stabilizing each Division's revenues and allowing for future revenue growth.

Airport and Seaport Combined Operating Expenses

	2017	2016	2015
Airport			
Personnel expense	$ 6,192,196	$ 4,978,976	$ 5,106,137
Maintenance and operations expense	9,160,517	7,620,137	7,176,396
	15,352,713	12,599,113	12,282,533
Seaport			
Personnel expense	908,850	847,778	711,187
Maintenance and operations expense	844,028	987,635	888,146
	1,752,878	1,835,413	1,599,333
Combined operating expenses	$ 17,105,591	$ 14,434,526	$ 13,881,866

FY 2017 BOND INDENTURE COMPLIANCE

FY2017 Bond/Debt Ratio Compliance

	Airport			Seaport		
	2017	2016	2015	2017	2016	2015
Required revenues for bond compliance	$ 12,655,571	$ 14,280,984	$ 13,741,080	$ 6,056,981	$ 4,940,152	$ 5,497,208
Actual revenues collected:						
Revenues and other income	17,198,726	14,391,258	14,473,078	10,212,742	8,969,023	7,582,322
Other grant revenues and contributions	220,361	208,398	219,923	-	34,700	19,259
Interest income	51,717	26,822	21,499	584,361	254,944	235,945
Passenger facility charge	3,241,045	2,591,466	2,463,032	-	-	-
	20,711,849	17,217,944	17,177,532	10,797,103	9,258,667	7,837,526
Variance	$ 8,056,278	$ 2,936,960	$ 3,436,452	$ 4,740,122	$ 4,318,515	$ 2,340,318

FY2017 BOND INDENTURE COMPLIANCE, CONTINUED

As illustrated in the above table, for FY2017, FY2016 and FY2015, CPA was able to generate sufficient revenues for the Airport and Seaport to meet its Bond Indenture requirements. A key factor contributing to CPA Airport's ability to meet these requirements is the FAA opinion allowing passenger facility charges to be considered as revenues for compliance calculations. As stated previously, revenues and expenses are being monitored on a monthly basis so that steps can be taken to ensure compliance. The results from this activity are being used to construct a realistic budget for FY2018. It is management's intention to control expenses in a comprehensive manner to ensure there is a proper relationship to operating revenues.

REVENUE-BASED STATISTICS

AIRPORT DIVISION

	Enplaned Passengers	Deplaned Passengers	Landing Weights
Saipan			
FY 2015	536,695	505,825	866,830,363
FY 2016	567,321	536,070	797,118,082
FY 2017	709,301	681,859	971,581,822
Rota			
FY 2015	5,805	4,660	29,166,188
FY 2016	13,026	6,056	37,663,068
FY 2017	14,301	5,685	37,805,456
Tinian			
FY 2015	30,389	No data	60,461,658
FY 2016	28,024	No data	40,923,484
FY 2017	28,762	No data	43,885,582
All Airports			
FY 2015	572,889	510,485	956,458,209
FY 2016	608,371	542,126	875,704,634
FY 2017	752,364	687,544	1,053,272,860

In FY2017, consolidated airport enplanements (air passenger departures) increased by 24% and consolidated deplanements (air passenger arrivals) increased by 27% from FY 2016. These increases are due to additional scheduled and chartered flights.

SEAPORT DIVISION

	Revenue Tons		
	Inbound	Outbound	Total
Saipan			
FY 2015	401,932	8,893	410,825
FY 2016	545,320	15,121	560,441
FY 2017	573,198	17,487	590,685
Rota			
FY 2015	3,990	547	4,537
FY 2016	5,695	880	6,575
FY 2017	4,731	380	5,111
Tinian			
FY 2015	18,030	621	18,651
FY 2016	13,457	555	14,012
FY 2017	14,118	1,032	15,150
All Seaports			
FY 2015	423,952	10,061	434,013
FY 2016	564,472	16,556	581,028
FY 2017	592,047	18,899	610,946

REVENUE-BASED STATISTICS, CONTINUED

In FY2017, seaport inbound cargo increased by 5% and outbound cargo increased by 14% for the three seaports combined from FY2016.

ECONOMIC OUTLOOK

The Airport aviation traffic for 2018 is forecasted to decrease due to the pull out of airlines providing daily and charter services to and from the Saipan International Airport. The Seaport gross revenue tons for 2018 is forecasted to remain steady. Management will continue to closely monitor the Airport and Seaport operating expenses in order to maintain a level to comply with respective Bond Indentures.

The Management's Discussion and Analysis for the year ended September 30, 2016 is set forth in CPA's report on the audit of financial statements, which is dated June 22, 2017. That Discussion and Analysis explains the major factors impacting the 2016 financial statements and can be viewed at the Office of the Public Auditor's website at www.opacnmi.com.

CONTACTING CPA'S FINANCIAL MANAGEMENT

This financial report is designed to provide the branches of the CNMI Government and the public at large with a general overview of CPA's finances and to demonstrate its accountability for the monies received. If you have questions about this report or need additional financial information, contact Mrs. Skye Lynn L. Aldan Hofschneider, Comptroller, P.O. Box 501055, Saipan, MP 96950-1055, or call (670) 237-6500 or email at skye.aldan@cpa.gov.mp.

COMMONWEALTH PORTS AUTHORITY

Statements of Net Position
September 30, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017	2016
Current assets:		
Cash	$ 38,103,823	$ 30,779,472
Receivables:		
Grantor agencies	1,050,885	1,290,138
Operations, net	3,505,998	5,804,098
Related party, net	2,602,095	267,492
Officers and employees	8,772	8,129
Prepaid expenses	1,010,033	544,410
Investments, restricted for debt service and other purposes	21,784,087	19,934,862
Total current assets	68,065,693	58,628,601
Nondepreciable capital assets	70,238,902	69,611,633
Depreciable capital assets, net of accumulated depreciation and amortization	115,676,035	118,953,043
Deferred outflows from cost of refunding debt	644,988	699,786
Total assets and deferred outflows of resources	$ 254,625,618	$ 247,893,063
LIABILITIES AND NET POSITION		
Current liabilities:		
Revenue bonds payable, current portion	$ 2,285,000	$ 2,135,000
Note payable to related party, current portion	275,813	272,548
Contractors payable	4,935,328	6,004,176
Trade and other payables	889,973	1,430,949
Due to related parties	11,482,310	6,673,506
Accrued expenses	934,139	625,164
Unearned revenues	101,927	84,838
Compensated absences, current portion	243,231	236,181
Total current liabilities	21,147,721	17,462,362
Noncurrent liabilities:		
Accrued interest payable	546,679	546,679
Compensated absences, net of current portion	366,445	282,854
Revenue bonds payable, net of current portion	33,668,306	35,953,306
Note payable to related party, net of current portion	3,695,205	3,967,877
Total noncurrent liabilities	38,276,635	40,750,716
Total liabilities	59,424,356	58,213,078
Commitment and contingencies		
Net position:		
Net investment in capital assets	146,635,600	146,935,731
Restricted	21,784,087	19,934,862
Unrestricted	26,781,575	22,809,392
Total net position	195,201,262	189,679,985
Total liabilities and net position	$ 254,625,618	$ 247,893,063

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues:		
Aviation fees	$ 9,914,685	$ 7,900,503
Seaport fees	8,166,633	7,142,799
Concession and lease income	7,114,103	6,386,783
Other	2,216,047	1,930,196
	27,411,468	23,360,281
Bad debts	(2,271,767)	(1,910,174)
Operating revenues, net	25,139,701	21,450,107
Operating expenses:		
Depreciation and amortization	12,412,848	12,322,370
Salaries and wages	6,086,674	5,105,607
Utilities	4,039,544	2,878,736
Contractual services	1,321,856	1,550,223
Employee benefits	1,014,372	721,147
Insurance	932,169	1,196,138
Supplies	894,335	595,467
Repairs and maintenance	862,326	1,113,196
Penalties and interest	752,952	-
Fuel	272,658	329,709
Travel	248,367	248,051
Professional fees	230,615	230,264
Promotion and advertising	55,561	62,944
Training	10,719	4,480
Other	383,443	398,564
Total operating expenses	29,518,439	26,756,896
Operating loss	(4,378,738)	(5,306,789)
Non-operating revenues (expenses):		
Passenger facility charges	3,241,045	2,591,466
Settlement income	1,481,259	1,282,087
Interest income	636,078	281,766
Other grant revenues and contributions	220,361	243,098
Insurance proceeds	-	1,201,796
Interest expense	(2,176,565)	(2,404,973)
Total non-operating revenues, net	3,402,178	3,195,240
Loss before capital contributions	(976,560)	(2,111,549)
Capital contributions	6,497,837	7,271,279
Change in net position	5,521,277	5,159,730
Net position at beginning of year	189,679,985	184,520,255
Net position at end of year	$ 195,201,262	$ 189,679,985

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	$ 25,131,261	$ 19,434,211
Cash payments to suppliers for goods and services	(5,904,982)	(3,825,127)
Cash payments to employees for services	(7,010,406)	(5,854,347)
Net cash provided by operating activities	12,215,873	9,754,737
Cash flows from noncapital financing activity:		
Other grant revenues and contributions	220,361	243,098
Net cash provided by noncapital financing activity	220,361	243,098
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(11,113,741)	(8,889,184)
Capital and other contributions received	6,737,090	6,596,788
Proceeds from settlement	1,481,259	1,282,087
Insurance proceeds	-	1,201,796
Passenger facility charge receipts	3,241,045	2,591,466
Principal paid on revenue bond maturities	(2,080,202)	(2,010,000)
Payments on note payable to related party	(269,407)	(259,135)
Interest paid on revenue bonds and note payable to related party	(1,894,780)	(2,592,345)
Net cash used for capital and related financing activities	(3,898,736)	(2,078,527)
Cash flows from investing activities:		
Net investment purchases, restricted	(1,849,225)	(1,253,035)
Interest income	636,078	281,766
Net cash used for investing activities	(1,213,147)	(971,269)
Net change in cash	7,324,351	6,948,039
Cash at beginning of year	30,779,472	23,831,433
Cash at end of year	$ 38,103,823	$ 30,779,472
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (4,378,738)	$ (5,306,789)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	12,412,848	12,322,370
Bad debts	2,271,767	1,910,174
(Increase) decrease in assets:		
Receivables - operations	26,333	(2,278,235)
Receivables - related parties	(2,334,604)	(491,317)
Receivables - officers and employees	(643)	892
Prepaid expenses	(465,623)	839,646
Increase (decrease) in liabilities:		
Trade and other payables	(540,976)	991,705
Due to related parties	4,808,804	2,891,068
Accrued expenses	308,975	61,132
Unearned revenue	17,089	(1,158,316)
Compensated absences	90,641	(27,593)
Net cash provided by operating activities	$ 12,215,873	$ 9,754,737

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. CPA utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

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

Budgets

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

Concentrations of Credit Risk

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

At September 30, 2017 and 2016, 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, 2017 and 2016, concentrations of credit risk result from receivables from significant customers and receivables from a related party which represent 24% and 15%, 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 position 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. CPA has elected to record these investments as current as they may satisfy its debt service requirements at any time.

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. Eligible interest expense of $329,752 and $244,258 was capitalized during the years ended September 30, 2017 and 2016, respectively. No interest is capitalized for projects financed with grant proceeds or Passenger Facility Charges.

Investments

CNMI Public Law 2-48, Section 31, requires that all CPA investments be guaranteed by the CNMI Government or U.S. Government, or be invested in direct obligations, or participation certificates, guaranteed by the U.S. Government.

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. Bad debts are written-off against the allowance based on the specific identification method.

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

Passenger Facility Charges

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

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

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

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. On September 11, 2012, Public Law 17-82 *CNMI Pension Reform Recovery Act of 2012* was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect to, to buy quarters of service in the U.S. Social Security system from contributions made to the DB Plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

On March 11, 2013, Public Law 18-02 was enacted to amend Public Law 17-82 to clarify those provisions necessary to expedite the refunds and to prevent any further frustration of the process. Included in the public law is the amendment of Section 203(a) of Title 1, Division 8, Part 3, which states that the government obligation to withhold and remit the employee's portion to the employee's defined account shall continue with respect to employees who do not terminate membership in the DB Plan. All but four active CPA employees voluntarily terminated membership in the DB Plan and CPA contributed $52,418, $35,042 and $38,188 to the DB Plan during the years ended September 30, 2017, 2016 and 2015, respectively.

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, 2017, 2016 and 2015 were $73,639, $56,224 and $57,618, 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.

(2) Summary of Significant Accounting Policies, Continued

Net Position

CPA's net position is classified as follows:

- Net investment in capital assets; capital assets, net of accumulated depreciation, plus deferred outflow from cost of refunding debt, less outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

  - Nonexpendable - Net position subject to externally imposed stipulations that CPA maintain them permanently. For the years ended September 30, 2017 and 2016, CPA does not have nonexpendable restricted net position.

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

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

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated vacation leave liability as of September 30, 2017 and 2016 amounted to $609,676 and $519,035, respectively.

Unearned Revenues

Unearned revenues arise when federal funds are received in excess of federal funds expended.

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, PFCs and certain recurring income and costs.

Due to Related Party

Public Law 9-66 requires public corporations or other autonomous agencies to pay to the Commonwealth Treasurer an amount not less than one percent of total operation budgets, and such funds will be deposited into a special account of the CNMI general fund to be solely used for the operations and activities of the CNMI Office of the Public Auditor (OPA).

(2) Summary of Significant Accounting Policies, Continued

Due to Related Party, Continued

At September 30, 2017 and 2016, CPA recorded amounts due to the CNMI government related to the 1% Public Auditor fee totaling $2,007,363 and $1,859,873, respectively.

GASB Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* and in November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of* GASB *Statement No. 68,* which revise and establish new financial reporting requirements for most governments that provide their employees with pension benefits through plans that are administered through trusts. Management has determined that the CNMI is legally responsible for making contributions to NMISF as a non-employer entity and that net pension obligations are allocated in total to the CNMI. Management acknowledges the requirement to recognize revenue in an amount equal to the non-employer contributing entities' (CNMI) total proportionate share of the collective pension expense that is associated with CPA. CPA has not recorded related revenues and pension expense for the years ended September 30, 2017 and 2016 as amounts were not available.

New Accounting Standards

During the year ended September 30, 2017, CPA did not implement the following pronouncements as the CNMI did not record the effects of GASB Statements No. 68 and No. 71 as of and for the year ended September 30, 2017 as amounts are not available:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.

- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.

- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

During the year ended September 30, 2017, CPA implemented the following pronouncements:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

Estimates

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

(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, 2017 and 2016, total cash was $38,103,823 and $30,779,472, respectively, and the corresponding bank balances were $38,472,841 and $31,086,622, respectively. All bank balances are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. CNMI law does not require component unit funds to be collateralized and thus CPA's funds, in excess of FDIC insurance, are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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:

	2017	2016
Airport Division		
Bond Reserve Fund	$ 1,607,032	$ 1,596,834
Bond Fund	496,201	466,163
Maintenance and Operation	4,561,232	3,511,240
Revenue Fund	726	724
Optional Redemption Fund	12,136	12,104
	6,677,327	5,587,065
Seaport Division		
Bond Reserve Fund	3,481,367	3,479,889
Supplemental Reserve Fund	7,991,935	7,991,935
Reimbursement Fund	5,825	5,809
Bond Fund	1,049,637	998,807
Maintenance and Operation	2,569,984	1,863,366
Construction Fund	7,199	7,180
Revenue Fund	813	811
	15,106,760	14,347,797
	$ 21,784,087	$ 19,934,862

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, 2017 and 2016, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2017 and 2016, investments at fair value consist of investments in U.S. government money market placements and mutual funds.

Fair Value Measurement of the Investments

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

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

(4) Receivables from Federal Grantor Agencies

Receivables from federal grantor agencies as of September 30, 2017 and 2016 are as follows:

	2017	2016
U.S. Department of Transportation	$ 491,574	$ 1,171,113
U.S. Department of Homeland Security	440,163	84,339
U.S. Department of the Interior-passed through from the CNMI Government	119,148	30,156
Other	-	4,530
	$ 1,050,885	$ 1,290,138

Amounts due from the above agencies represent reimbursements due under grants for costs incurred for improvements of the CNMI airports and public assistance. Generally, under the grant agreements, the grantor agency funds a portion of the allowable costs incurred, ranging from 75% to 100%, with the remainder of project costs, if any, funded by CPA or other sources. Capital contributions amounting to $6,497,837 and $7,271,279 and operating grants amounting to $220,361 and $243,098 were received from grantor agencies during the years ended September 30, 2017 and 2016, respectively.

(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, 2017 and 2016, are as follows:

	2017	2016
Accounts receivable	$ 9,092,220	$ 7,554,887
Less allowance for doubtful accounts	(5,586,222)	(1,750,789)
	$ 3,505,998	$ 5,804,098

(6) Capital Assets

Capital asset balances consist of the following as of September 30, 2017 and 2016:

	Estimated Useful Lives	Balance October 1, 2016	Increases	Decreases	Balance September 30, 2017
Assets not being depreciated:					
Construction in progress		$ 69,147,204	$ 8,298,491	$ (7,671,222)	$ 69,774,473
Land		464,429	-	-	464,429
Total capital assets not being depreciated		69,611,633	8,298,491	(7,671,222)	70,238,902
Capital assets being depreciated:					
Runway and improvements	20 years	114,151,817	-	(40,673)	114,111,144
Other improvements	3 - 10 years	27,165,860	484,264	(385,942)	27,264,182
Terminal facilities	20 years	103,723,249	7,015,901	-	110,739,150
Terminal equipment	2 - 10 years	9,537,484	1,498	(245,270)	9,293,712
Harbor facilities	20 years	63,601,422	-	-	63,601,422
Grounds maintenance and shop equipment	2 - 5 years	1,614,350	91,718	-	1,706,068
Fire and rescue equipment	2 - 8 years	13,975,107	712,097	(1,866,500)	12,820,704
Office furniture and fixtures	2 - 10 years	1,622,449	639,879	(19,900)	2,242,428
General transportation	3 - 5 years	1,160,148	180,686	(48,892)	1,291,942
Other	3 - 5 years	2,715,908	9,794	-	2,725,702
		339,267,794	9,135,837	(2,607,177)	345,796,454
Less accumulated depreciation and amortization		(220,314,751)	(12,412,848)	2,607,180	(230,120,419)
Total capital assets being depreciated		118,953,043	(3,277,011)	3	115,676,035
Total capital assets, net		$ 188,564,676	$ 5,021,480	$ (7,671,219)	$ 185,914,937

	Estimated Useful Lives	Balance October 1, 2015	Increases	Decreases	Balance September 30, 2016
Assets not being depreciated:					
Construction in progress		$ 67,758,817	$ 4,010,864	$ (2,622,477)	$ 69,147,204
Land		464,429	-	-	464,429
Total capital assets not being depreciated		68,223,246	4,010,864	(2,622,477)	69,611,633
Capital assets being depreciated:					
Runway and improvements	20 years	113,856,055	295,762	-	114,151,817
Other improvements	3 - 10 years	26,781,393	384,467	-	27,165,860
Terminal facilities	20 years	101,711,278	2,011,971	-	103,723,249
Terminal equipment	2 - 10 years	9,518,875	25,804	(7,195)	9,537,484
Harbor facilities	20 years	63,601,422	-	-	63,601,422
Grounds maintenance and shop equipment	2 - 5 years	349,210	1,286,960	(21,820)	1,614,350
Fire and rescue equipment	2 - 8 years	11,569,219	2,831,580	(425,692)	13,975,107
Office furniture and fixtures	2 - 10 years	1,263,766	358,683	-	1,622,449
General transportation	3 - 5 years	1,153,346	110,135	(103,333)	1,160,148
Other	3 - 5 years	2,693,608	22,300	-	2,715,908
		332,498,172	7,327,662	(558,040)	339,267,794
Less accumulated depreciation and amortization		(208,550,421)	(12,322,370)	558,040	(220,314,751)
Total capital assets being depreciated		123,947,751	(4,994,708)	-	118,953,043
Total capital assets, net		$ 192,170,997	$ (983,844)	$ (2,622,477)	$ 188,564,676

(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.

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 and was fully amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $688,620 and an increase of $7,616,151 in future debt service payments. Interest on the bonds is payable semi-annually at 6.25% on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2017 and 2016, consist of the following:

	2017	2016
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2018 and 2028 are listed below.	$ 10,945,000	$ 11,620,000
Less current portion	730,000	675,000
Long-term portion	$ 10,215,000	$ 10,945,000

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
2018	$ 730,000	$ 661,250	$ 1,391,250
2019	765,000	614,531	1,379,531
2020	810,000	565,313	1,375,313
2021	865,000	512,969	1,377,969
2022	920,000	457,188	1,377,188
2023 - 2027	5,530,000	1,320,313	6,850,313
2028	1,325,000	41,406	1,366,406
	$ 10,945,000	$ 4,172,970	$ 15,117,970

Seaport Division

On March 26, 1998, CPA issued $33,775,000 of Senior Series A tax-exempt seaport revenue bonds which in part were used for a current refunding of $22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $1,345,593. This amount is recorded as a deferred outflow from cost of refunding debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. At September 30, 2017 and 2016, deferred outflow from cost of refunding debt amounted to $644,988 and $699,786, respectively. 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, 2017 and 2016, consist of the following:

	2017	2016
Special Revenue Bonds, tax-exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2018 and 2028 are listed below.	$ 19,780,000	$ 20,995,000
Special Revenue Bonds, tax-exempt, 2005 Senior Series A: interest and annual installments payable to the Bond Trustee between 2018 and 2031 are listed below.	5,300,000	5,545,000

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

	2017	2016
Discount on 2005 Senior Series A bonds	(71,694)	(71,694)
	25,008,306	26,468,306
Less current portion	1,555,000	1,460,000
Long-term portion	$ 23,453,306	$ 25,008,306

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
2018	$ 1,555,000	$ 1,547,095	$ 3,102,095
2019	1,650,000	1,444,273	3,094,273
2020	1,755,000	1,335,015	3,090,015
2021	1,865,000	1,218,828	3,083,828
2022	1,980,000	1,095,380	3,075,380
2023 - 2027	11,925,000	3,337,153	15,262,153
2028 - 2031	4,350,000	300,602	4,650,602
	$ 25,080,000	$ 10,278,346	$ 35,358,346

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, 2017 and 2016, total deposits in the Seaport Supplemental Reserve Fund amounted to $7,991,935.

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.

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

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

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

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

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

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 are $50,476,316 and $54,960,284 at September 30, 2017 and 2016, respectively. Pledged gross revenues received during the years ended September 30, 2017 and 2016 were $27,411,468 and $23,360,281, respectively. Debt service payments during the years ended September 30, 2017 and 2016 amounted to $4,468,968 and $4,490,840 representing 16% and 19%, 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, 2017. 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.

(7) Revenue Bonds Payable, Continued

Pledge of Future Revenues, Continued

Management of CPA has determined that gross revenues consist of total operating revenues, other grant revenue and contributions, interest income and PFCs to meet the indenture requirements. For fiscal years 2017 and 2016, management of CPA determined that 100% of PFCs are considered as gross revenues for these purposes.

The Commonwealth Development Authority subordinated CPA's obligations under the 1992 Loan Agreement, to CPA's obligation on the Seaport bonds. Accordingly, principal and interest payments due during the fiscal year were excluded in the calculation of debt coverage ratio. Management of CPA has determined that Sections (A)(2) and (A)(3) of the Indenture apply to subsequent bond issuances and therefore does not apply at September 30, 2017 and 2016.

Changes in long-term liabilities for the years ended September 30, 2017 and 2016, are as follows:

	Balance October 1, 2016	Additions	Reductions	Balance September 30, 2017	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	$ 11,620,000	$ -	$ (675,000)	$ 10,945,000	$ 730,000
Seaport 1998 Senior Series A	20,995,000	-	(1,215,000)	19,780,000	1,295,000
Seaport 2005 Senior Series A	5,545,000	-	(245,000)	5,300,000	260,000
Note payable	4,240,425	-	(269,407)	3,971,018	275,813
Deferred amounts:					
Discount on bonds	(71,694)	-	-	(71,694)	-
	42,328,731	-	(2,404,407)	39,924,324	2,560,813
Other:					
Compensated absences	519,035	495,578	(404,937)	609,676	243,231
Accrued interest	546,679	102,794	(102,794)	546,679	-
	$ 43,394,445	$ 598,372	$ (2,912,138)	$ 41,080,679	$ 2,804,044

	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	$ 12,260,000	$ -	$ (640,000)	$ 11,620,000	$ 675,000
Seaport 1998 Senior Series A	22,135,000	-	(1,140,000)	20,995,000	1,215,000
Seaport 2005 Senior Series A	5,775,000	-	(230,000)	5,545,000	245,000
Note payable	4,499,560	-	(259,135)	4,240,425	272,548
Deferred amounts:					
Discount on bonds	(76,474)	-	4,780	(71,694)	-
	44,593,086	-	(2,264,355)	42,328,731	2,407,548
Other:					
Compensated absences	546,628	407,203	(434,796)	519,035	236,181
Accrued interest	546,679	106,439	(106,439)	546,679	-
	$ 45,686,393	$ 513,642	$ (2,805,590)	$ 43,394,445	$ 2,643,729

(8) Note Payable to Related Party

CPA's note payable is as follows:

	2017	2016
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.	$ 3,971,018	$ 4,240,425
Less current portion	275,813	272,548
Long-term portion	$ 3,695,205	$ 3,967,877

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
2018	$ 275,813	$ 96,187	$ 372,000
2019	282,994	89,006	372,000
2020	290,151	81,849	372,000
2021	297,488	74,511	371,999
2022	305,011	66,989	372,000
2023 - 2027	1,644,730	215,270	1,860,000
2028 - 2030	874,831	573,811	1,448,642
	$ 3,971,018	$ 1,197,623	$ 5,168,641

(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 and seaport facilities to which it is exposed. Settled claims have not exceeded commercial insurance coverage during the past three years.

(10) Related Party Transactions

Total related party transactions for the years ended September 30, 2017 and 2016, and the related receivable and payable balances, are as follows:

(10) Related Party Transactions, Continued

	2017			
	Revenues and Capital Contributions	Expenses	Receivables	Payables
Commonwealth Utilities Corporation	$ 273,256	$ 4,084,274	$ 2,602,095	$ 9,474,947
CNMI Government	2,003,584	147,491	-	2,007,363
Commonwealth Development Authority	-	102,794	-	-
	$ 2,276,840	$ 4,334,559	$ 2,602,095	$ 11,482,310

	2016			
	Revenues and Capital Contributions	Expenses	Receivables	Payables
Commonwealth Utilities Corporation	$ 211,571	$ 2,878,736	$ 267,492	$ 4,813,633
CNMI Government	337,310	124,492	-	1,859,873
Commonwealth Development Authority	-	106,439	-	-
	$ 548,881	$ 3,109,667	$ 267,492	$ 6,673,506

A note payable to CDA amounted to $3,971,018 and $4,240,425 at September 30, 2017 and 2016, respectively. Interest expense on this note for the years ended September 30, 2017 and 2016 amounted to $102,794 and $106,439, respectively.

On June 30, 2008, CPA and the Commonwealth Utilities Corporation (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, 2017 and 2016 amounted to $122,905 and $112,161, respectively. In addition, during the years ended September 30, 2017 and 2016, CPA recorded lease receivables from CUC for the rental of water wells situated on CPA property. CPA and CUC are currently negotiating an arrangement to offset the receivable against CPA's utility charges from CUC. Any change through negotiation will be made prospectively.

Total receivables from CUC at September 30, 2017 and 2016 and related allowances are as follows:

	2017	2016
Wharfage fees	$ 3,385,131	$ 3,385,131
Interest on wharfage fees	1,067,118	699,814
Water wells lease	1,534,977	1,143,068
	5,987,226	5,228,013
Less allowance for doubtful accounts	(3,385,131)	(4,960,521)
	$ 2,602,095	$ 267,492

Amounts payable to CUC of $9,474,947 and $4,813,633 represent outstanding utility charges at September 30, 2017 and 2016, respectively. The installation of a master meter at the Saipan airport has resulted in an increase in utilities expense.

CPA recorded contributions of $2,003,584 and $337,310 from the CNMI government during the years ended September 30, 2017 and 2016, respectively. The amount due to the CNMI government relates to the 1% Public Auditor fee of $2,007,363 and $1,859,873 at September 30, 2017 and 2016, respectively.

(11) Commitment and Contingencies

Commitment

CPA's Airport Division leases rental car concession booths, office space and other ground space. The Seaport Division leases land and warehouse space. Lease terms range from one to forty years and in most instances contain provisions for percentage rent. Concession and lease income for the years ended September 30, 2017 and 2016, amounted to $7,114,103 and $6,386,783, respectively. Minimum future lease income is as follows:

Year ending September 30,	Minimum Lease Income Due
2018	$ 1,523,861
2019	1,657,384
2020	1,700,190
2021	1,684,295
2022	1,269,336
2023 - 2027	3,219,778
2028 - 2032	337,570
2033 - 2037	145,912
2038 - 2042	72,309
2043 - 2047	86,770
2048 - 2052	104,124
2053 - 2054	30,964
	$ 11,832,493

Contingencies

In accordance with 14 CFR Part 158.67(c), at least annually during the period the PFC is collected, held or used, each public agency shall provide for an audit of its PFC account. Cumulative questioned costs of $781,102 have been set forth in CPA's PFC report for the year ended September 30, 2015. The ultimate disposition of these questioned costs can be determined only by final action of the Federal Aviation Administration (FAA); therefore, no provision for any liability that may result from this matter has been made in the accompanying financial statements. CPA has not finalized its PFC audits for fiscal years 2017 and 2016.

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 position 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.

(12) Major Customers, Continued

During the years ended September 30, 2017 and 2016, three customers accounted for 42% and 44%, respectively, of total Airport Division operating revenues. One customer accounted for 19% and 16% of total operating revenues of the Seaport Division during the years ended September 30, 2017 and 2016, respectively.

(13) Typhoon Damages

During the year ended September 30, 2016, CPA recorded insurance proceeds of $1,201,796 relating to damages sustained from Typhoon Soudelor.

(14) Settlement Income

During the years ended September 30, 2017 and 2016, studies were commissioned by CPA to assess compliance with the Airline Use Agreement with various airlines. The agreement states that CPA will charge fees in relation to the cost of operations and other factors each year. The studies, performed for fiscal years 2015-2016 and 2009-2014, respectively, determined amounts due to and from various airlines and resulted in a net $1,481,259 and $1,008,667 due CPA, which was recorded as settlement income in the accompanying financial statements for the years ended September 30, 2017 and 2016, respectively. In addition, CPA sold airline stock ($438,584), received in previous years to offset outstanding receivables, in excess of recorded receivables ($165,164). CPA recorded settlement income of $1,282,087 for the year ended September 30, 2016.

(15) Subsequent Event

On October 24, 2018, the islands of Saipan and Tinian were devastated by Typhoon Yutu. Damages sustained by the Saipan Airport include six jet ways being declared unusable. The jet ways are valued at $2,000,000 each, three of which will be replaced by the FAA. CPA is unable to determine the extent of other airport property damages.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Net Position
September 30, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Airport Division	Seaport Division	Elimination	Total
Current assets:				
Cash	$ 25,381,209	$ 12,722,614	$ -	$ 38,103,823
Receivables:				
Grantor agencies	1,050,885	-	-	1,050,885
Operations, net	2,392,435	1,113,563	-	3,505,998
Related party, net	1,534,977	1,067,118	-	2,602,095
Due from Seaport Division	36,911	-	(36,911)	-
Officers and employees	5,743	3,029	-	8,772
Prepaid expenses	792,222	217,811	-	1,010,033
Investments, restricted for debt service and other purposes	6,677,327	15,106,760	-	21,784,087
Total current assets	37,871,709	30,230,895	(36,911)	68,065,693
Nondepreciable capital assets	68,464,717	1,774,185	-	70,238,902
Depreciable capital assets, net of accumulated depreciation and amortization	87,724,583	27,951,452	-	115,676,035
Deferred outflows from cost of refunding debt	-	644,988	-	644,988
Total assets and deferred outflows of resources	$ 194,061,009	$ 60,601,520	$ (36,911)	$ 254,625,618
LIABILITIES AND NET POSITION				
Current liabilities:				
Revenue bonds payable, current portion	$ 730,000	$ 1,555,000	$ -	$ 2,285,000
Note payable to related party, current portion	-	275,813	-	275,813
Contractors payable	4,717,219	218,109	-	4,935,328
Trade and other payables	877,333	12,640	-	889,973
Due to related parties	11,212,597	269,713	-	11,482,310
Due to Airport Division	-	36,911	(36,911)	-
Accrued expenses	674,295	259,844	-	934,139
Unearned revenues	101,927	-	-	101,927
Compensated absences, current portion	215,759	27,472	-	243,231
Total current liabilities	18,529,130	2,655,502	(36,911)	21,147,721
Noncurrent liabilities:				
Accrued interest payable	-	546,679	-	546,679
Compensated absences, net of current portion	329,467	36,978	-	366,445
Revenue bonds payable, net of current portion	10,215,000	23,453,306	-	33,668,306
Note payable to related party, net of current portion	-	3,695,205	-	3,695,205
Total noncurrent liabilities	10,544,467	27,732,168	-	38,276,635
Total liabilities	29,073,597	30,387,670	(36,911)	59,424,356
Net position:				
Net investment in capital assets	145,244,299	1,391,301	-	146,635,600
Restricted	6,677,327	15,106,760	-	21,784,087
Unrestricted	13,065,786	13,715,789	-	26,781,575
Total net position	164,987,412	30,213,850	-	195,201,262
Total liabilities and net position	$ 194,061,009	$ 60,601,520	$ (36,911)	$ 254,625,618

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2017

	Airport Division	Seaport Division	Total
Operating revenues:			
Aviation fees	$ 9,914,685	$ -	$ 9,914,685
Seaport fees	-	8,166,633	8,166,633
Concession and lease income	5,610,813	1,503,290	7,114,103
Other	1,673,228	542,819	2,216,047
	17,198,726	10,212,742	27,411,468
(Bad debt) recoveries	(2,696,104)	424,337	(2,271,767)
Operating revenues, net	14,502,622	10,637,079	25,139,701
Operating expenses:			
Depreciation and amortization	9,736,169	2,676,679	12,412,848
Salaries and wages	5,350,621	736,053	6,086,674
Utilities	3,916,639	122,905	4,039,544
Contractual services	1,250,418	71,438	1,321,856
Employee benefits	841,575	172,797	1,014,372
Insurance	528,831	403,338	932,169
Supplies	830,806	63,529	894,335
Repairs and maintenance	800,719	61,607	862,326
Penalties and interest	752,952	-	752,952
Fuel	255,716	16,942	272,658
Travel	228,048	20,319	248,367
Professional fees	179,122	51,493	230,615
Promotion and advertising	53,115	2,446	55,561
Training	10,719	-	10,719
Other	353,432	30,011	383,443
Total operating expenses	25,088,882	4,429,557	29,518,439
Operating (loss) income	(10,586,260)	6,207,522	(4,378,738)
Non-operating revenues (expenses):			
Passenger facility charges	3,241,045	-	3,241,045
Settlement income	1,481,259	-	1,481,259
Interest income	51,717	584,361	636,078
Other grant revenues and contributions	220,361	-	220,361
Interest expense	(423,371)	(1,753,194)	(2,176,565)
Total non-operating revenues (expenses), net	4,571,011	(1,168,833)	3,402,178
(Loss) income before capital contributions	(6,015,249)	5,038,689	(976,560)
Capital contributions	6,497,837	-	6,497,837
Change in net position	482,588	5,038,689	5,521,277
Net position at beginning of year	164,504,824	25,175,161	189,679,985
Net position at end of year	$ 164,987,412	$ 30,213,850	$ 195,201,262

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2017

	Airport Division	Seaport Division	Total
Cash flows from operating activities:			
Cash received from customers	$ 15,857,529	$ 9,273,732	$ 25,131,261
Cash payments to suppliers for goods and services	(5,051,731)	(853,251)	(5,904,982)
Cash payments to employees for services	(6,101,857)	(908,549)	(7,010,406)
Net cash provided by operating activities	4,703,941	7,511,932	12,215,873
Cash flows from noncapital financing activity:			
Other grant revenues and contributions	220,361	-	220,361
Net cash provided by noncapital financing activity	220,361	-	220,361
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(9,954,871)	(1,158,870)	(11,113,741)
Capital and other contributions received	6,737,090	-	6,737,090
Proceeds from settlement	1,481,259	-	1,481,259
Passenger facility charge receipts	3,241,045	-	3,241,045
Principal paid on revenue bond maturities	(675,000)	(1,405,202)	(2,080,202)
Payments on note payable to related party	-	(269,407)	(269,407)
Interest paid on revenue bonds and note payable to related party	(141,586)	(1,753,194)	(1,894,780)
Net cash provided by (used for) capital and related financing activities	687,937	(4,586,673)	(3,898,736)
Cash flows from investing activities:			
Net investment purchases, restricted	(1,090,262)	(758,963)	(1,849,225)
Interest income	51,717	584,361	636,078
Net cash used for investing activities	(1,038,545)	(174,602)	(1,213,147)
Net change in cash	4,573,694	2,750,657	7,324,351
Cash at beginning of year	20,807,515	9,971,957	30,779,472
Cash at end of year	$ 25,381,209	$ 12,722,614	$ 38,103,823
Reconciliation of operating (loss) income to net cash provided by operating activities:			
Operating (loss) income	$ (10,586,260)	$ 6,207,522	$ (4,378,738)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:			
Depreciation and amortization	9,736,169	2,676,679	12,412,848
Bad debts (recoveries)	2,696,104	(424,337)	2,271,767
(Increase) decrease in assets:			
Receivables - operations	165,717	(139,384)	26,333
Receivables - related parties	(1,534,977)	(799,627)	(2,334,604)
Interdivisional accounts	11,617	(11,617)	-
Receivables - officers and employees	(643)	-	(643)
Prepaid expenses	(463,812)	(1,811)	(465,623)
Increase (decrease) in liabilities:			
Trade and other payables	(495,892)	(45,084)	(540,976)
Due to related parties	4,788,490	20,314	4,808,804
Accrued expenses	279,999	28,976	308,975
Unearned revenues	17,089	-	17,089
Compensated absences	90,340	301	90,641
Net cash provided by operating activities	$ 4,703,941	$ 7,511,932	$ 12,215,873

See Accompanying Independent Auditors' Report.