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

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

YEAR ENDED SEPTEMBER 30, 2019

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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, 2019 AND 2018

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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, 2019 and 2018, 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.

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

Basis for Qualified Opinion

Management has not adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was effective October 1, 2014. 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, 2019 and 2018. GASB Statement No. 68 requires 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. 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, 2019 and 2018, 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.

Emphasis-of-Matter

Economic uncertainties as a result of the COVID-19 coronavirus pandemic may negatively impact CPA's future financial results as described in note 13 to the financial statements.

Our opinion is not modified with respect to this matter.

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.

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, 2019 (pages 35 through 37) 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 March 8, 2021 on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CPA's 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

March 8, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED SEPTEMBER 30, 2019

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, 2019, with selected comparative information for the fiscal years ended September 30, 2018 and 2017. 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 revenues from port users to fund operating expenses and debt service requirements.

CPA is tasked with the responsibility to operate, maintain and improve all airports and seaports within the CNMI. Airport and seaport facilities currently exist on the islands of Saipan, Tinian and Rota with 157 employees on Saipan, 27 employees on Rota and 30 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, unrestricted 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 10% or $26,455,509 from $254,836,489 in FY2018 to $281,291,998 in FY2019 and by less than 1% or $210,871 from $254,625,618 in FY2017 to $254,836,489 in FY2018.

Net position for the airport and seaport operations combined increased by 8% or $15,945,455 from $196,659,405 in FY2018 to $212,604,860 in FY2019 and by 1% or $1,458,143 from $195,201,262 in FY2017 to $196,659,405 in FY2018. Net position represents the amount that total assets exceed total liabilities.

Operating revenues for the airport and seaport operations combined decreased by 14% or $3,735,912 from $26,003,399 in FY2018 to $22,267,487 in FY2019 and by 5% or $1,408,069 from $27,411,468 in FY2017 to $26,003,399 in FY2018. Operating revenues for the Airport Division decreased by 22% or $3,771,549 from $17,249,999 in FY2018 to $13,478,450 in FY2019 and increased by less than 1% or $51,273 from $17,198,726 in FY2017 to $17,249,999 in FY2018. Operating revenues for the Seaport Division increased by less than 1% or $35,637 from $8,753,400 in FY2018 to $8,789,037 in FY2019 and decreased by 14% or $1,459,342 from $10,212,742 in FY2017 to $8,753,400 in FY2018.

Operating expenses (excluding depreciation and amortization) for the airport and seaport operations combined decreased by 10% or $1,845,384 from $19,330,231 in FY2018 to $17,484,847 in FY2019 and increased by 13% or $2,224,640 from $17,105,591 in FY2017 to $19,330,231 in FY2018 mainly due to the increase in utility expenses for FY2018.

The Airport Division's aviation revenue decreased by $2,428,362 due to flight limitations at the airport as a result of damages caused by Supertyphoon Yutu and the pull out of scheduled air carriers in late FY2018. The Airport Division was in compliance with its Bond Indenture for FY2019 and expects to be in compliance with the Agreement for FY2020.

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 FY2019, the Seaport Division's seaport fees increased by $512,138 due to an increase in construction materials revenue tonnage. The Seaport Division was in compliance with its 1998 and 2005 Bond Indenture Agreements (the Agreements) for FY2019. CPA expects the Seaport Division to be in compliance with the Agreement for FY2020.

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, 2019 follows, with comparative information as of and for the years ended September 30, 2018 and 2017:

FINANCIAL HIGHLIGHTS, CONTINUED

Statements of Net Position

	2019	2018	2017
Assets and Deferred Outflows			
Current assets:			
Cash	$ 33,351,620	$ 37,064,903	$ 38,103,823
Receivables	5,738,865	4,668,446	7,167,750
Prepaid expenses	728,149	1,084,847	1,010,033
Investments, restricted for debt service and other purposes	54,843,349	24,840,061	21,784,087
Total current assets	94,661,983	67,658,257	68,065,693
Nondepreciable capital assets	52,938,082	76,028,352	70,238,902
Depreciable capital assets, net of accumulated depreciation and amortization	133,164,819	110,562,465	115,676,035
Deferred outflows from cost of refunding debt	527,114	587,415	644,988
Total assets and deferred outflows	$ 281,291,998	$ 254,836,489	$ 254,625,618
Liabilities and Net Position			
Current liabilities:			
Revenue bonds payable, current portion	$ 2,565,000	$ 2,415,000	$ 2,285,000
Note payable to related party, current portion	-	3,695,607	275,813
Contractors payable	5,987,004	5,557,662	4,935,328
Trade and other payables	526,590	743,957	889,973
Due to related parties	3,858,569	7,828,107	11,482,310
Accrued interest payable, current portion	-	550,729	-
Accrued expenses	772,315	712,643	934,139
Unearned revenues	4,489,951	1,102,762	101,927
Compensated absences, current portion	290,313	251,850	243,231
Total current liabilities	18,489,742	22,858,317	21,147,721
Noncurrent liabilities:			
Accrued interest payable, net of current portion	-	-	546,679
Compensated absences, net of current portion	384,714	422,470	366,445
Revenue bonds payable, net of current portion	28,688,306	31,253,306	33,668,306
Notes payable to related party, net of current portion	-	-	3,695,205
Unearned revenues, net of current portion	21,124,376	3,642,991	-
Total noncurrent liabilities	50,197,396	35,318,767	38,276,635
Total liabilities	68,687,138	58,177,084	59,424,356
Net position:			
Net investment in capital assets	155,376,709	149,814,318	146,635,600
Restricted	54,843,349	24,840,061	21,784,087
Unrestricted	2,384,802	22,005,026	26,781,575
Total net position	212,604,860	196,659,405	195,201,262
	$ 281,291,998	$ 254,836,489	$ 254,625,618

Statements of Revenues, Expenses and Changes in Net Position

	2019	2018	2017
Operating revenues:			
Aviation fees	$ 6,854,861	$ 9,283,223	$ 9,914,685
Seaport fees	6,874,308	6,362,170	8,166,633
Concession and lease income	6,783,029	7,737,218	7,114,103
Other	1,755,289	2,620,788	2,216,047
	22,267,487	26,003,399	27,411,468
Bad debts	(874,724)	(74,836)	(2,271,767)
Operating revenues, net	21,392,763	25,928,563	25,139,701
Operating expenses:			
Depreciation and amortization	12,916,905	11,693,235	12,412,848
Salaries and wages	6,320,006	6,523,493	6,084,371
Utilities	4,534,904	6,071,737	4,039,544
Contractual services	1,345,570	1,432,394	1,321,856
Employee benefits	1,279,599	1,208,308	1,014,372
Insurance	1,112,765	932,206	932,169
Supplies	542,867	749,241	894,335
Repairs and maintenance	626,923	1,010,007	862,326
Penalties and interest	-	3,345	752,952
Fuel	254,729	305,569	272,658
Travel	253,494	268,342	248,367
Professional fees	211,659	259,790	230,615
Promotion and advertising	34,592	64,832	55,561
Training	8,345	15,127	13,022
Other	959,394	485,840	383,443
Total operating expenses	30,401,752	31,023,466	29,518,439
Operating loss	(9,008,989)	(5,094,903)	(4,378,738)

FINANCIAL HIGHLIGHTS, CONTINUED

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

	2019	2018	2017
Non-operating revenues (expenses):			
Passenger facility charges	2,368,264	2,999,871	3,241,045
Settlement income	-	-	1,481,259
Interest income	580,980	504,273	636,078
Other grant revenues and contributions	180,060	260,097	220,361
Insurance proceeds from typhoon-related damages	16,746,477	-	-
Recovery	-	3,434,497	-
Typhoon-related damages	(2,272,370)	-	-
Interest expense	(1,517,163)	(1,891,821)	(2,176,565)
Total non-operating revenues (expenses), net	16,086,248	5,306,917	3,402,178
Income (loss) before capital contributions and special items	7,077,259	212,014	(976,560)
Capital contributions	8,868,196	6,499,821	6,497,837
Special items:			
Backbilled utility charges	-	(7,202,831)	-
Water well lease revenues	-	1,204,455	-
Reversal of penalties	-	744,684	-
Total special items	-	(5,253,692)	-
Change in net position	15,945,455	1,458,143	5,521,277
Net position at beginning of year	196,659,405	195,201,262	189,679,985
Net position at end of year	$ 212,604,860	$ 196,659,405	$ 195,201,262

Statements of Cash Flows

	2019	2018	2017
Cash flows from operating activities:			
Cash received from customers	$ 47,882,991	$ 29,656,862	$ 25,131,261
Cash payments to suppliers for goods and services	(20,930,875)	(14,031,922)	(5,907,241)
Cash payments to employees for services	(7,598,898)	(7,667,156)	(7,008,103)
Net cash provided by operating activities	19,353,218	7,957,784	12,215,917
Cash flows from noncapital financing activity:			
Other grant revenues and contributions	180,060	260,097	220,361
Net cash provided by noncapital financing activity	180,060	260,097	220,361
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(11,887,940)	(11,276,483)	(10,550,173)
Capital and other contributions received	7,178,851	6,437,314	6,737,090
Proceeds from settlement	-	-	1,481,259
Proceeds from insurance settlement	16,746,477	-	-
Passenger facility charge receipts	2,368,264	2,999,871	3,241,045
Principal paid on revenue bond maturities	(2,354,699)	(2,227,427)	(2,080,202)
Payments on note payable to related party	(3,695,607)	(275,411)	(269,407)
Interest paid on revenue bonds and notes payable to related party	(2,179,599)	(2,362,964)	(2,458,392)
Net cash provided by (used for) capital and related financing activities	6,175,747	(6,705,100)	(3,898,780)
Cash flows from investing activities:			
Net investment purchases, restricted	(30,003,288)	(3,055,976)	(1,849,225)
Interest income	580,980	504,273	636,078
Net cash used for investing activities	(29,422,308)	(2,551,701)	(1,213,147)
Net change in cash	(3,713,283)	(1,038,920)	7,324,351
Cash at beginning of year	37,064,903	38,103,823	30,779,472
Cash at end of year	$ 33,351,620	$ 37,064,903	$ 38,103,823

CAPITAL ASSETS

At September 30, 2019, CPA had $186,102,901 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 $487,916 or less than 1% from the last fiscal year.

CAPITAL ASSETS, CONTINUED

	2019	2018	2017
Runway and improvements	$ 119,224,577	$ 114,277,326	$ 114,111,144
Other improvements	29,934,149	27,281,782	27,264,182
Terminal facilities and equipment	128,252,542	124,718,757	120,032,862
Harbor facilities	64,520,013	64,327,013	63,601,422
Grounds maintenance and shop equipment	1,726,667	1,707,368	1,706,068
Fire and rescue equipment	36,331,622	12,900,994	12,820,704
Office furniture and fixtures	3,352,522	2,930,553	2,242,428
General transportation	1,492,812	1,492,812	1,291,942
Other	2,739,514	2,739,514	2,725,702
	387,574,418	352,376,119	345,796,454
Less accumulated depreciation and amortization	(254,409,599)	(241,813,654)	(230,120,419)
Total capital assets being depreciated	133,164,819	110,562,465	115,676,035
Construction in progress	52,473,653	75,563,923	69,774,473
Land	464,429	464,429	464,429
Total capital assets, net	$ 186,102,901	$ 186,590,817	$ 185,914,937

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, 2019, 2018 and 2017 are as follows:

	2019	2018	2017
Airport			
Bond Reserve Fund	$ 1,665,020	$ 1,628,992	$ 1,607,032
Bond Fund	554,160	519,435	496,201
Maintenance and Operation	2,155,757	6,994,269	4,561,232
Revenue Fund	748	734	726
Optional Redemption Fund	12,509	12,270	12,136
Insurance and Condemnation Proceeds Fund - Yutu	12,403,516	-	-
Insurance and Condemnation Proceeds Fund - Mangkhut	1,700,015	-	-
Stonecastle Fund	10,010,292	-	-
	28,502,017	9,155,700	6,677,327
Seaport			
Bond Reserve Fund	3,492,296	3,487,417	3,481,367
Supplemental Reserve Fund	7,975,806	7,991,935	7,991,935
Reimbursement Fund	6,003	5,889	5,825
Bond Fund	1,190,825	1,111,161	1,049,637
Maintenance and Operation	3,657,852	3,079,858	2,569,984
Construction Fund	7,420	7,279	7,199
Reserve Fund	838	822	813
Stonecastle Fund	10,010,292	-	-
	26,341,332	15,684,361	15,106,760
Total	$ 54,843,349	$ 24,840,061	$ 21,784,087

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

LONG-TERM DEBT

1998 Airport Revenue Bonds

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

Payments for the Airport bond are current. The current portion of the Airport bond principal is $810,000. The long-term portion of the bond balance as of September 30, 2019 is $8,640,000.

LONG-TERM DEBT, CONTINUED

1998 Airport Revenue Bonds, Continued

This 1998 bond was partially used to refund an outstanding $8,250,000 1987 Series B tax-exempt bonds. The bond refunding consolidated the existing bonds with new bonds to finance various airport projects and to reduce total future debt service payments through lower interest rates. The reacquisition price exceeded the net carrying amount of the old debt by $503,906 which was 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 $1,465,000. The long-term portion of the bond balance as of September 30, 2019 is $15,645,000.

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 and ends in the year 2031.

Payments for the 2005 Seaport bond are current. The current portion of the 2005 Seaport bond principal is $290,000. The long-term portion of the bond balance as of September 30, 2019 is $4,475,000.

A summary of CPA's long-term debt balances as of September 30, 2019, 2018 and 2017 is as follows:

	2019	2018	2017
1998 Senior Series A Bonds - Airport	$ 9,450,000	$ 10,215,000	$ 10,945,000
1998 Senior Series A Bonds - Seaport	$ 17,110,000	$ 18,485,000	$ 19,780,000
2005 Senior Series A Bonds - Seaport	$ 4,765,000	$ 5,040,000	$ 5,300,000
Note payable to CDA	$ -	$ 3,695,607	$ 3,971,018

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

	2019	2018	2017
Airport	$ 13,478,450	$ 17,249,999	$ 17,198,726
Seaport	8,789,037	8,753,400	10,212,742
	$ 22,267,487	$ 26,003,399	$ 27,411,468

The Airport Division operating revenues decreased by 22% in FY2019 as compared to FY2018. The decrease was mainly due to the decrease in aviation revenues as four air carriers ceased operations at the Saipan International Airport towards the end of FY2018. The Seaport Division experienced a slight increase in operating revenues in FY2019 as compared to FY2018.

The CPA Board of Directors implemented an increase of fees for the Airports that took effect in June 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

	2019	2018	2017
Airport			
Personnel expense	$ 6,491,362	$ 6,521,094	$ 6,189,893
Maintenance and operations expense	8,763,232	10,686,376	9,162,820
	15,254,594	17,207,470	15,352,713
Seaport			
Personnel expense	1,108,243	1,210,707	908,850
Maintenance and operations expense	1,122,010	912,054	844,028
	2,230,253	2,122,761	1,752,878
Combined operating expenses	$ 17,484,847	$ 19,330,231	$ 17,105,591

SPECIAL ITEM

As of September 30, 2018, CPA incurred back-billed utility charges of $7,202,831. The charges relate to the Commonwealth Utilities Corporation (CUC) under-estimating the water usage from FY2013 - FY2017. An omnibus agreement was entered into between CPA and CUC to waive water charges indefinitely and give CUC permanent easement over water wells. The agreement also waives penalties and interest related to water and sewer charges of $744,684 recorded in FY2017.

Please refer to note 10 to the financial statements for additional information regarding CPA's special item.

FY 2019 BOND INDENTURE COMPLIANCE

FY2019 Bond/Debt Ratio Compliance

	Airport			Seaport		
	2019	2018	2017	2019	2018	2017
Required revenues for bond compliance	$ 16,979,008	$ 18,946,534	$ 17,077,909	$ 6,098,094	$ 6,000,381	$ 5,632,645
Actual revenues collected:						
Revenues and other income	13,478,450	17,249,999	17,198,726	8,789,037	8,753,400	10,212,742
Insurance proceeds from typhoon-related damages	16,746,477	-	-	-	-	-
Other grant revenues and contributions	180,060	260,097	220,361	-	11,610	-
Interest income	209,840	127,857	51,717	371,140	376,416	584,361
Passenger facility charge	2,368,264	2,999,871	3,241,045	-	-	-
	32,983,091	20,637,824	20,711,849	9,160,177	9,141,426	10,797,103
Variance (noncompliance)	$ 16,004,083	$ 1,691,290	$ 3,633,940	$ 3,062,083	$ 3,141,045	$ 5,164,458

FY 2019 BOND INDENTURE COMPLIANCE, CONTINUED

As illustrated in the above table, for FY2019, FY2018, and FY2017, 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 and the inclusion of insurance proceeds from typhoon-related damages in the bond indenture definition of gross revenues. 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 FY2020. 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 2017	709,301	681,859	971,581,822
FY 2018	683,415	639,811	861,262,450
FY 2019	517,433	469,981	680,938,846
Rota			
FY 2017	14,301	5,685	37,805,456
FY 2018	14,543	5,404	34,024,646
FY 2019	11,530	No data	23,051,154
Tinian			
FY 2017	28,762	No data	43,885,582
FY 2018	34,468	No data	49,434,896
FY 2019	39,128	No data	53,265,172
All Airports			
FY 2017	752,364	687,544	1,053,272,860
FY 2018	732,426	645,215	944,721,992
FY 2019	568,091	469,981	757,255,172

In FY2019, consolidated airport enplanements (air passenger departures) decreased by 22% and consolidated deplanements (air passenger arrivals) decreased by 27% from FY2018. These decreases are due to the pull out of air carriers at the Saipan International Airport in FY2018 and flight limitations due to Supertyphoon Yutu.

SEAPORT DIVISION

	Revenue Tons		
	Inbound	Outbound	Total
Saipan			
FY 2017	573,198	17,487	590,685
FY 2018	468,631	13,802	482,433
FY 2019	513,922	27,799	541,721
Rota			
FY 2017	4,731	380	5,111
FY 2018	5,073	-	5,073
FY 2019	4,535	683	5,218

REVENUE-BASED STATISTICS, CONTINUED

SEAPORT DIVISION, CONTINUED

	Revenue Tons		
	Inbound	Outbound	Total
Tinian			
FY 2017	14,118	1,032	15,150
FY 2018	12,486	1,277	13,763
FY 2019	18,052	3,499	21,551
All Seaports			
FY 2017	592,047	18,899	610,946
FY 2018	486,190	15,079	501,269
FY 2019	536,509	31,981	568,490

In FY2019, seaport inbound cargo increased by 10% and outbound cargo increased by 112% for the three seaports combined from FY2018. The increase in revenue tonnage is due to the increase in construction materials tonnage.

ECONOMIC OUTLOOK

The Airport aviation traffic for 2020 is forecasted to significantly decrease due to the COVID-19 coronavirus pandemic. Due to the substantial reduction in revenues, CPA implemented austerity measures to control expenditures. The Seaport gross revenue tons for 2020 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, 2018 is set forth in CPA's report on the audit of financial statements, which is dated December 30, 2019. That Discussion and Analysis explains the major factors impacting the 2018 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.hofschneider@cnmiports.com.

COMMONWEALTH PORTS AUTHORITY

Statements of Net Position
September 30, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2019	2018
Current assets:		
Cash	$ 33,351,620	$ 37,064,903
Receivables:		
Grantor agencies	2,802,737	1,113,392
Operations, net	2,925,836	3,547,362
Officers and employees	10,292	7,692
Prepaid expenses	728,149	1,084,847
Investments, restricted for debt service and other purposes	54,843,349	24,840,061
Total current assets	94,661,983	67,658,257
Nondepreciable capital assets	52,938,082	76,028,352
Depreciable capital assets, net of accumulated depreciation and amortization	133,164,819	110,562,465
Deferred outflows from cost of refunding debt	527,114	587,415
Total assets and deferred outflows of resources	$ 281,291,998	$ 254,836,489
LIABILITIES AND NET POSITION		
Current liabilities:		
Revenue bonds payable, current portion	$ 2,565,000	$ 2,415,000
Note payable to related party, current portion	-	3,695,607
Contractors payable	5,987,004	5,557,662
Trade and other payables	526,590	743,957
Due to related parties	3,858,569	7,828,107
Accrued interest payable	-	550,729
Accrued expenses	772,315	712,643
Unearned revenues	4,489,951	1,102,762
Compensated absences, current portion	290,313	251,850
Total current liabilities	18,489,742	22,858,317
Noncurrent liabilities:		
Compensated absences, net of current portion	384,714	422,470
Revenue bonds payable, net of current portion	28,688,306	31,253,306
Unearned revenues, net of current portion	21,124,376	3,642,991
Total noncurrent liabilities	50,197,396	35,318,767
Total liabilities	68,687,138	58,177,084
Commitment and contingencies		
Net position:		
Net investment in capital assets	155,376,709	149,814,318
Restricted	54,843,349	24,840,061
Unrestricted	2,384,802	22,005,026
Total net position	212,604,860	196,659,405
Total liabilities and net position	$ 281,291,998	$ 254,836,489

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2019 and 2018

	2019	2018
Operating revenues:		
Seaport fees	$ 6,874,308	$ 6,362,170
Aviation fees	6,854,861	9,283,223
Concession and lease income	6,783,029	7,737,218
Other	1,755,289	2,620,788
	22,267,487	26,003,399
Bad debts	(874,724)	(74,836)
Operating revenues, net	21,392,763	25,928,563
Operating expenses:		
Depreciation and amortization	12,916,905	11,693,235
Salaries and wages	6,320,006	6,523,493
Utilities	4,534,904	6,071,737
Contractual services	1,345,570	1,432,394
Employee benefits	1,279,599	1,208,308
Insurance	1,112,765	932,206
Repairs and maintenance	626,923	1,010,007
Supplies	542,867	749,241
Fuel	254,729	305,569
Travel	253,494	268,342
Professional fees	211,659	259,790
Promotion and advertising	34,592	64,832
Training	8,345	15,127
Penalties and interest	-	3,345
Other	959,394	485,840
Total operating expenses	30,401,752	31,023,466
Operating loss	(9,008,989)	(5,094,903)
Non-operating revenues (expenses):		
Insurance proceeds from typhoon-related damages	16,746,477	-
Passenger facility charges	2,368,264	2,999,871
Interest income	580,980	504,273
Other grant revenues and contributions	180,060	260,097
Recovery	-	3,434,497
Typhoon-related damages	(2,272,370)	-
Interest expense	(1,517,163)	(1,891,821)
Total non-operating revenues, net	16,086,248	5,306,917
Income before capital contributions and special items	7,077,259	212,014
Capital contributions	8,868,196	6,499,821
Special items:		
Backbilled utility charges	-	(7,202,831)
Water well lease revenues	-	1,204,455
Reversal of penalties	-	744,684
Total special items	-	(5,253,692)
Change in net position	15,945,455	1,458,143
Net position at beginning of year	196,659,405	195,201,262
Net position at end of year	$ 212,604,860	$ 196,659,405

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from customers	$ 47,882,991	$ 29,656,862
Cash payments to suppliers for goods and services	(20,930,875)	(14,031,922)
Cash payments to employees for services	(7,598,898)	(7,667,156)
Net cash provided by operating activities	19,353,218	7,957,784
Cash flows from noncapital financing activity:		
Other grant revenues and contributions	180,060	260,097
Net cash provided by noncapital financing activity	180,060	260,097
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(11,887,940)	(11,276,483)
Capital and other contributions received	7,178,851	6,437,314
Passenger facility charge receipts	2,368,264	2,999,871
Principal paid on revenue bond maturities	(2,354,699)	(2,227,427)
Proceeds from insurance settlement	16,746,477	-
Payments on note payable to related party	(3,695,607)	(275,411)
Interest paid on revenue bonds and note payable to related party	(2,179,599)	(2,362,964)
Net cash provided by (used for) capital and related financing activities	6,175,747	(6,705,100)
Cash flows from investing activities:		
Net investment purchases, restricted	(30,003,288)	(3,055,974)
Interest income	580,980	504,273
Net cash used for investing activities	(29,422,308)	(2,551,701)
Net change in cash	(3,713,283)	(1,038,920)
Cash at beginning of year	37,064,903	38,103,823
Cash at end of year	$ 33,351,620	$ 37,064,903
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (9,008,989)	$ (5,094,903)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	12,916,905	11,693,235
Typhoon-related damages	(2,272,370)	-
Bad debts	874,724	74,836
Recovery	-	3,434,497
Backbilled utility charges	-	(7,202,831)
Water well lease revenues	-	1,204,455
Reversal of penalties	-	744,684
(Increase) decrease in assets:		
Receivables - operations	(253,198)	(116,200)
Receivables - related parties	-	2,602,095
Receivables - officers and employees	(2,600)	1,080
Prepaid expenses	356,698	(74,814)
Increase (decrease) in liabilities:		
Trade and other payables	(217,367)	(146,016)
Due to related parties	(4,398,036)	(3,654,203)
Accrued expenses	59,672	(112,007)
Unearned revenue	21,297,072	4,539,232
Compensated absences	707	64,644
Net cash provided by operating activities	$ 19,353,218	$ 7,957,784

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, 2019 and 2018, 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, 2019 and 2018, concentrations of credit risk result from receivables from significant customers and receivables from a related party which represent 17% and 29%, 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 $111,257 and $470,297 was capitalized during the years ended September 30, 2019 and 2018, 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 two active CPA employees voluntarily terminated membership in the DB Plan and CPA contributed $28,359 and $26,286 to the DB Plan during the years ended September 30, 2019 and 2018, 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, 2019 and 2018 were $97,658 and $89,104, 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, 2019 and 2018, 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, 2019 and 2018 amounted to $675,027 and $674,320, respectively.

Unearned Revenues

Unearned revenues arise when federal funds are received in excess of federal funds expended and from CPA granting rights to CUC to access certain assets.

Additionally, CPA has recorded unearned revenues related to $20,900,000 received from the U.S. Department of Defense on May 9, 2019 for a 40-year lease of the Tinian divert airfield. CPA has elected to recognize lease revenue over the term of the lease and recorded $217,708 for the year ended September 30, 2019. Unearned revenues of $20,682,292 have been recorded as of September 30, 2019 of which $522,504 is current.

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.

During the year ended September 30, 2019, CPA incurred losses of $2,272,230 as a result of Supertyphoon Yutu and received insurance proceeds of $16,746,477 from damage sustained.

(2) Summary of Significant Accounting Policies, Continued

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).

At September 30, 2019 and 2018, CPA recorded amounts due to the CNMI government related to the 1% Public Auditor fee totaling $2,350,003 and $2,178,190, respectively.

GASB Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* which revised and established 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, 2019 and 2018 as amounts were not available.

New Accounting Standards

During the year ended September 30, 2019, CPA implemented the following pronouncements:

- GASB 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.

- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on CPA's financial statements.

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 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61,* which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The provisions in Statement No. 90 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 May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*, which clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions in Statement No. 91 are effective for fiscal years beginning after December 15, 2020. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No. 84, 89, 90 and 91 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. Management has yet to ascertain whether implementation of these statements will be postponed as provided in GASB Statement No. 95.

Estimates

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

Reclassification

Certain 2018 balances in the accompanying financial statements have been reclassified to conform to the 2019 presentation.

(3) Deposits and Investments

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

Deposits

As of September 30, 2019 and 2018, total cash was $33,351,620 and $37,064,903, respectively, and the corresponding bank balances were $33,349,371 and $37,555,254, 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:

	2019	2018
Airport Division		
Bond Reserve Fund	$ 1,665,020	$ 1,628,992
Bond Fund	554,160	519,435
Maintenance and Operation	2,155,757	6,994,269
Revenue Fund	748	734
Optional Redemption Fund	12,509	12,270
Insurance and Condemnation Proceeds Fund - Yutu	12,403,516	-
Insurance and Condemnation Proceeds Fund - Mangkhut	1,700,015	-
Stonecastle Fund	10,010,292	-
	28,502,017	9,155,700
Seaport Division		
Bond Reserve Fund	3,492,296	3,487,417
Supplemental Reserve Fund	7,975,806	7,991,935
Reimbursement Fund	6,003	5,889
Bond Fund	1,190,825	1,111,161
Maintenance and Operation	3,657,852	3,079,858
Construction Fund	7,420	7,279
Revenue Fund	838	822
Stonecastle Fund	10,010,292	-
	26,341,332	15,684,361
	$ 54,843,349	$ 24,840,061

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, 2019 and 2018, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2019 and 2018, 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, 2019 and 2018 are as follows:

	2019	2018
U.S. Department of Transportation	$ 2,500,569	$ 859,286
U.S. Department of Homeland Security	302,168	254,106
	$ 2,802,737	$ 1,113,392

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 $8,868,196 and $6,499,821 and operating grants amounting to $180,060 and $260,097 were received from grantor agencies during the years ended September 30, 2019 and 2018, 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, 2019 and 2018, are as follows:

(5) Accounts Receivable from Operations, Continued

	2019	2018
Accounts receivable	$ 9,282,186	$ 9,085,388
Less allowance for doubtful accounts	(6,356,350)	(5,538,026)
	$ 2,925,836	$ 3,547,362

(6) Capital Assets

Capital asset balances consist of the following as of September 30, 2019 and 2018:

	Estimated Useful Lives	Balance October 1, 2018	Increases	Decreases	Balance September 30, 2019
Assets not being depreciated:					
Construction in progress		$ 75,563,923	$ 10,539,878	$ (33,630,148)	$ 52,473,653
Land		464,429	-	-	464,429
Total capital assets not being depreciated		76,028,352	10,539,878	(33,630,148)	52,938,082
Capital assets being depreciated:					
Runway and improvements	20 years	114,277,326	4,947,251	-	119,224,577
Other improvements	3 - 10 years	27,281,782	2,652,367	-	29,934,149
Terminal facilities	20 years	115,396,401	3,690,626	(157,029)	118,929,998
Terminal equipment	2 - 10 years	9,322,356	29,513	(29,325)	9,322,544
Harbor facilities	20 years	64,327,013	193,000	-	64,520,013
Grounds maintenance and shop equipment	2 - 5 years	1,707,368	19,299	-	1,726,667
Fire and rescue equipment	2 - 8 years	12,900,994	23,430,628	-	36,331,622
Office furniture and fixtures	2 - 10 years	2,930,553	556,575	(134,606)	3,352,522
General transportation	3 - 5 years	1,492,812	-	-	1,492,812
Other	3 - 5 years	2,739,514	-	-	2,739,514
		352,376,119	35,519,259	(320,960)	387,574,418
Less accumulated depreciation and amortization		(241,813,654)	(12,916,905)	320,960	(254,409,599)
Total capital assets being depreciated		110,562,465	22,602,354	-	133,164,819
Total capital assets, net		$ 186,590,817	$ 33,142,232	$ (33,630,148)	$ 186,102,901

	Estimated Useful Lives	Balance October 1, 2017	Increases	Decreases	Balance September 30, 2018
Assets not being depreciated:					
Construction in progress		$ 69,774,473	$ 10,955,950	$ (5,166,500)	$ 75,563,923
Land		464,429	-	-	464,429
Total capital assets not being depreciated		70,238,902	10,955,950	(5,166,500)	76,028,352
Capital assets being depreciated:					
Runway and improvements	20 years	114,111,144	166,182	-	114,277,326
Other improvements	3 - 10 years	27,264,182	17,600	-	27,281,782
Terminal facilities	20 years	110,739,150	4,657,251	-	115,396,401
Terminal equipment	2 - 10 years	9,293,712	28,644	-	9,322,356
Harbor facilities	20 years	63,601,422	725,591	-	64,327,013
Grounds maintenance and shop equipment	2 - 5 years	1,706,068	1,300	-	1,707,368
Fire and rescue equipment	2 - 8 years	12,820,704	80,290	-	12,900,994
Office furniture and fixtures	2 - 10 years	2,242,428	688,125	-	2,930,553
General transportation	3 - 5 years	1,291,942	200,870	-	1,492,812
Other	3 - 5 years	2,725,702	13,812	-	2,739,514
		345,796,454	6,579,665	-	352,376,119
Less accumulated depreciation and amortization		(230,120,419)	(11,693,235)	-	(241,813,654)
Total capital assets being depreciated		115,676,035	(5,113,570)	-	110,562,465
Total capital assets, net		$ 185,914,937	$ 5,842,380	$ (5,166,500)	$ 186,590,817

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.

(6) Capital Assets, Continued

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

(7) Revenue Bonds Payable

Airport Division

On March 26, 1998, CPA issued $20,050,000 of tax-exempt airport revenue bonds which in part were used for a current refunding of $8,250,000 of 1987 Series B tax-exempt airport revenue bonds. The refunding was undertaken to consolidate existing bonds with new bonds issued for the purpose of financing various airport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $503,906 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, 2019 and 2018, consist of the following:

	2019	2018
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2020 and 2028 are listed below.	$ 9,450,000	$ 10,215,000
Less current portion	810,000	765,000
Long-term portion	$ 8,640,000	$ 9,450,000

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:

Year ending September 30,	Principal	Interest	Total
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	975,000	397,969	1,372,969
2024	1,035,000	335,156	1,370,156
2025 - 2028	4,845,000	628,594	5,473,594
	$ 9,450,000	$ 2,897,189	$ 12,347,189

(7) Revenue Bonds Payable, Continued

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, 2019 and 2018, deferred outflow from cost of refunding debt amounted to $527,114 and $587,415, 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, 2019 and 2018, consist of the following:

	2019	2018
Special Revenue Bonds, tax-exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2020 and 2028 are listed below.	$ 17,110,000	$ 18,485,000
Special Revenue Bonds, tax-exempt, 2005 Senior Series A: interest and annual installments payable to the Bond Trustee between 2020 and 2031 are listed below.	4,765,000	5,040,000
Discount on 2005 Senior Series A bonds	(71,694)	(71,694)
	21,803,306	23,453,306
Less current portion	1,755,000	1,650,000
Long-term portion	$ 20,048,306	$ 21,803,306

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.

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

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

Year ending September 30,	Principal	Interest	Total
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	2,105,000	964,205	3,069,205
2024	2,235,000	824,835	3,059,835
2025 - 2029	10,910,000	1,791,653	12,701,653
2030 - 2031	1,025,000	57,062	1,082,062
	$ 21,875,000	$ 7,286,978	$ 29,161,978

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, 2019 and 2018, total deposits in the Seaport Supplemental Reserve Fund amounted to $7,975,806 and $7,991,935, respectively.

Bond Redemption

In accordance with the Airport and Seaport Bond Indenture Agreements, Section 4.01, terms of redemption of the 1998 Senior Series A Bonds are as follows:

a) Optional redemption - The 1998 Senior Bonds for the airport are subject to redemption prior to their respective stated maturities on or after March 15, 2013, at the option of CPA, from any source of available funds, as a whole on any date, or in part on any Interest Payment Date and by lot within a maturity, at the Redemption Prices (expressed as percentages of principal amount) set forth in the table below plus interest accrued thereon to the date fixed for redemption:

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

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.

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

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:

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%

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

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 $41,509,167 and $45,982,971 at September 30, 2019 and 2018, respectively. Pledged gross revenues received during the years ended September 30, 2019 and 2018 were $39,013,964 and $26,003,399, respectively, of which $16,746,477 in 2019 pertains to insurance proceeds. Debt service payments during the years ended September 30, 2019 and 2018 amounted to $4,473,804 and $4,493,345 representing 11% and 17%, 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, 2019 and 2018. 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, PFCs and insurance proceeds to meet the indenture requirements. For fiscal years 2019 and 2018, management of CPA determined that 100% of PFCs are considered as gross revenues for these purposes.

Changes in long-term liabilities for the years ended September 30, 2019 and 2018, are as follows:

	Balance October 1, 2018	Additions	Reductions	Balance September 30, 2019	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	$ 10,215,000	$ -	$ (765,000)	$ 9,450,000	$ 810,000
Seaport 1998 Senior Series A	18,485,000	-	(1,375,000)	17,110,000	1,465,000
Seaport 2005 Senior Series A	5,040,000	-	(275,000)	4,765,000	290,000
Note payable	3,695,607	-	(3,695,607)	-	-
Deferred amounts:					
Discount on bonds	(71,694)	-	-	(71,694)	-
	37,363,913	-	(6,110,607)	31,253,306	2,565,000
Other:					
Compensated absences	674,320	510,192	(509,485)	675,027	290,314
Accrued interest	550,729	-	(550,729)	-	-
	$ 38,588,962	$ 510,192	$ (7,170,821)	$ 31,928,333	$ 2,855,314

	Balance October 1, 2017	Additions	Reductions	Balance September 30, 2018	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	$ 10,945,000	$ -	$ (730,000)	$ 10,215,000	$ 765,000
Seaport 1998 Senior Series A	19,780,000	-	(1,295,000)	18,485,000	1,375,000
Seaport 2005 Senior Series A	5,300,000	-	(260,000)	5,040,000	275,000
Note payable	3,971,018	-	(275,411)	3,695,607	3,695,607
Deferred amounts:					
Discount on bonds	(71,694)	-	-	(71,694)	-
	39,924,324	-	(2,560,411)	37,363,913	6,110,607
Other:					
Compensated absences	609,676	472,924	(408,280)	674,320	251,850
Accrued interest	546,679	100,036	(95,986)	550,729	550,729
	$ 41,080,679	$ 572,960	$ (3,064,677)	$ 38,588,962	$ 6,913,186

Events of Default and Remedies of Bondholders

The outstanding revenue bonds related to government-type activities contains a provision that defines events of default as:

(a) default of by CPA in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceeding for redemption, by declaration of otherwise; default by CPA in the redemption from any Mandatory Sinking Account of any Term Bonds in the amounts at time provided therefore; or default by CPA in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(7) Revenue Bonds Payable, Continued

Events of Default and Remedies of Bondholders, Continued

(b) default by CPA in the observance of any of the covenants, agreement or conditions on its part in this Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to CPA by the Trustee, or to CPA and the Trustee by any Credit Provider or by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; except that, if such default can be remedied but not within such sixty (60) day period and if CPA has taken all action reasonably possible to remedy such default within such sixty (60) day period, such default shall not become an Event of Default hereunder for so long as CPA shall diligently proceed to remedy same in accordance with and subject to any directions established by the Trustee; or

(c) an event of bankruptcy.

Upon the occurrence of an event of default, the Trustee may, and upon the written request of the owners of not less than a majority in aggregate principal amount of Bonds then outstanding shall, declare the principal of all Bonds then outstanding and the interest accrued thereon due and payable on a date specified in such declaration (not less than fiver nor more than nine days after such declaration), and such principal and interest shall thereupon become and be immediately due and payable on such specified date, and interest shall cease to accrue on the Bonds from and after such date. The entire principal amount of the Bonds and such accrued interest shall become due and payable on the date of acceleration set forth in such notice of declaration, and interest shall cease to accrue on the Bonds from and after such date, provided moneys are held by the Trustee as of such date sufficient to pay such principal and accrued interest to such date. If an event of default shall occur and be continuing, all revenues, gross revenue and any other funds then held or thereafter received by the Trustee or the Depository under any of the provisions of the indenture shall be under the control of and apply by the Trustee as dictated by the Indenture.

(8) Note Payable to Related Party

CPA's note payable is a 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 has been deferred until the loan is paid off. The note payable balance was $3,695,607 at September 30, 2018. On May 15, 2019, CPA fully repaid its CDA loan.

(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, 2019 and 2018, and the related receivable and payable balances, are as follows:

	2019			
	Revenues and Capital Contributions	Expenses	Unearned Revenues	Due to Related Parties
Commonwealth Utilities Corporation	$ 391,909	$ 4,534,904	$ 3,642,992	$ 1,508,566
CNMI Government	195,000	171,813	-	2,350,003
Commonwealth Development Authority	546,679	55,526	-	-
	$ 1,133,588	$ 4,762,243	$ 3,642,992	$ 3,858,569

	2018			
	Revenues and Capital Contributions	Expenses	Unearned Revenues	Due to Related Parties
Commonwealth Utilities Corporation	$ 158,678	$ 6,071,737	$ 4,071,490	$ 5,649,917
CNMI Government	263,859	170,828	-	2,178,190
Commonwealth Development Authority	-	100,036	-	-
	$ 422,537	$ 6,342,601	$ 4,071,490	$ 7,828,107

A note payable to CDA amounted to $-0- and $3,695,607 at September 30, 2019 and 2018, respectively. Interest expense on this note for the years ended September 30, 2019 and 2018 amounted to $55,526 and $95,986, 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, 2019 and 2018 amounted to $-0- and $126,384, respectively. In addition, during the years ended September 30, 2019 and 2018, CPA recorded lease receivables from CUC for the rental of water wells situated on CPA property. In June 2018, CPA and CUC agreed to offset CPA's electric utility charges for the Airport Division against receivables from CUC for the Seaport Division of $4,533,909 comprising of wharfage fees of $3,385,131 and interest on wharfage fees of $1,148,778 through June 30, 2018, which resulted in a recovery of the Seaport Division of $3,434,497, net of accrued interest.

On November 1, 2019, CPA entered into an omnibus agreement with CUC which gave CUC a permanent easement over water wells, water lines, sand filtration, a 20 million gallon tank, and power poles and transmission lines to power the water wells, located on CPA property. CUC is responsible for maintenance of the permanent easement and for maintaining a continuous water supply to CPA. CPA recorded special items related to the omnibus agreement for the year ended September 30, 2018 including $7,202,831 in back-billed utility charges, $1,204,455 in water well lease revenues and $744,684 in reversal of penalties. CUC will not charge CPA for water up to $600,000 annually on an indefinite basis beginning November 1, 2019 and CPA will recognize revenue up to this amount annually as water expense is incurred.

CPA recorded contributions of $195,000 and $263,859 from the CNMI government during the years ended September 30, 2019 and 2018, respectively. The amount due to the CNMI government relates to the 1% Public Auditor fee of $2,350,003 and $2,178,190 at September 30, 2019 and 2018, 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, 2019 and 2018, amounted to $6,783,029 and $7,737,218, respectively. Minimum future lease income is as follows:

Year ending September 30,	Minimum Lease Income Due
2020	$ 2,880,352
2021	2,822,160
2022	2,173,496
2023	1,680,720
2024	1,606,699
2025 - 2029	4,120,400
2030 - 2034	3,017,635
2035 - 2039	2,867,432
2040 - 2044	2,815,163
2045 - 2049	2,830,695
2050 - 2054	2,834,035
2055 - 2059	2,509,375
	$ 32,158,162

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 $864,569 have been set forth in CPA's PFC report for the year ended September 30, 2019. 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 is involved in certain legal actions and claims that arise in the ordinary course of business. However, the ultimate outcome of the claims and lawsuits are unknown at the present time. Accordingly, no provision for any liability that might result has been made in the accompanying financial statements. 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, 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, 2019 and 2018, two customers accounted for 35% and 36%, respectively, of total Airport Division operating revenues. One customer accounted for 19% and 20% of total operating revenues of the Seaport Division during the years ended September 30, 2019 and 2018, respectively.

(13) Subsequent Events

On November 12, 2019, CUC and CPA signed an omnibus agreement that would result in additional utilities of $7,202,831, additional water well lease revenues of $3,559,840, deferred revenues of $3,642,991 and waiving of penalties and interest related to outstanding billings to be reflected as of September 30, 2019.

Economic uncertainties have arisen as a result of the COVID-19 coronavirus pandemic. CPA expects this matter to negatively impact its future financial results; however, the related financial impact cannot be reasonably estimated at this time. Other financial impacts could occur though such potential impact is unknown.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Net Position
September 30, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Airport Division	Seaport Division	Elimination	Total
Current assets:				
Cash	$ 25,687,954	$ 7,663,666	$ -	$ 33,351,620
Receivables:				
Grantor agencies	2,802,737	-	-	2,802,737
Operations, net	2,201,432	724,404	-	2,925,836
Due from other division	39,878	-	(39,878)	-
Officers and employees	10,292	-	-	10,292
Prepaid expenses	511,910	216,239	-	728,149
Investments, restricted for debt service and other purposes	28,502,017	26,341,332	-	54,843,349
Total current assets	59,756,220	34,945,641	(39,878)	94,661,983
Nondepreciable capital assets	51,506,531	1,431,551	-	52,938,082
Depreciable capital assets, net of accumulated depreciation and amortization	107,024,307	26,140,512	-	133,164,819
Deferred outflows from cost of refunding debt	-	527,114	-	527,114
Total assets and deferred outflows of resources	$ 218,287,058	$ 63,044,818	$ (39,878)	$ 281,291,998
LIABILITIES AND NET POSITION				
Current liabilities:				
Revenue bonds payable, current portion	$ 810,000	$ 1,755,000	$ -	$ 2,565,000
Contractors payable	5,956,612	30,392	-	5,987,004
Trade and other payables	491,133	35,457	-	526,590
Due to related parties	3,530,770	327,799	-	3,858,569
Due to other division	-	39,878	(39,878)	-
Accrued expenses	626,672	145,643	-	772,315
Unearned revenues	4,362,976	126,975	-	4,489,951
Compensated absences, current portion	254,831	35,482	-	290,313
Total current liabilities	16,032,994	2,496,626	(39,878)	18,489,742
Noncurrent liabilities:				
Compensated absences, net of current portion	335,015	49,699	-	384,714
Revenue bonds payable, net of current portion	8,640,000	20,048,306	-	28,688,306
Unearned revenues, net of current portion	20,159,792	964,584	-	21,124,376
Total noncurrent liabilities	29,134,807	21,062,589	-	50,197,396
Total liabilities	45,167,801	23,559,215	(39,878)	68,687,138
Net position:				
Net investment in capital assets	149,080,838	6,295,871	-	155,376,709
Restricted	28,502,017	26,341,332	-	54,843,349
Unrestricted	(4,463,598)	6,848,400	-	2,384,802
Total net position	173,119,257	39,485,603	-	212,604,860
Total liabilities and net position	$ 218,287,058	$ 63,044,818	$ (39,878)	$ 281,291,998

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2019

	Airport Division	Seaport Division	Total
Operating revenues:			
Seaport fees	$ -	$ 6,874,308	$ 6,874,308
Aviation fees	6,854,861	-	6,854,861
Concession and lease income	5,407,360	1,375,669	6,783,029
Other	1,216,229	539,060	1,755,289
	13,478,450	8,789,037	22,267,487
Bad debts	(733,980)	(140,744)	(874,724)
Operating revenues, net	12,744,470	8,648,293	21,392,763
Operating expenses:			
Depreciation and amortization	10,214,344	2,702,561	12,916,905
Salaries and wages	5,432,521	887,485	6,320,006
Utilities	4,402,384	132,520	4,534,904
Contractual services	1,256,331	89,239	1,345,570
Employee benefits	1,058,841	220,758	1,279,599
Insurance	640,798	471,967	1,112,765
Repairs and maintenance	572,038	54,885	626,923
Supplies	502,149	40,718	542,867
Fuel	229,958	24,771	254,729
Travel	244,710	8,784	253,494
Professional fees	195,068	16,591	211,659
Promotion and advertising	34,185	407	34,592
Training	8,345	-	8,345
Other	677,266	282,128	959,394
Total operating expenses	25,468,938	4,932,814	30,401,752
Operating (loss) income	(12,724,468)	3,715,479	(9,008,989)
Non-operating revenues (expenses):			
Insurance proceeds from typhoon-related damages	16,746,477	-	16,746,477
Passenger facility charges	2,368,264	-	2,368,264
Interest income	209,840	371,140	580,980
Other grant revenues and contributions	180,060	-	180,060
Typhoon-related damages	(2,272,370)	-	(2,272,370)
Interest expense	(551,151)	(966,012)	(1,517,163)
Total non-operating revenues (expenses), net	16,681,120	(594,872)	16,086,248
Income before capital contributions	3,956,652	3,120,607	7,077,259
Capital contributions	8,868,196	-	8,868,196
Change in net position	12,824,848	3,120,607	15,945,455
Net position at beginning of year	160,294,409	36,364,996	196,659,405
Net position at end of year	$ 173,119,257	$ 39,485,603	$ 212,604,860

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2019

	Airport Division	Seaport Division	Total
Cash flows from operating activities:			
Cash received from customers	$ 33,600,666	$ 14,282,325	$ 47,882,991
Cash payments to suppliers for goods and services	(19,788,571)	(1,142,304)	(20,930,875)
Cash payments to employees for services	(6,487,428)	(1,111,470)	(7,598,898)
Net cash provided by operating activities	7,324,667	12,028,551	19,353,218
Cash flows from noncapital financing activity:			
Other grant revenues and contributions	180,060	-	180,060
Net cash provided by noncapital financing activity	180,060	-	180,060
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(10,134,759)	(1,753,181)	(11,887,940)
Capital and other contributions received	7,167,241	11,610	7,178,851
Passenger facility charge receipts	2,368,264	-	2,368,264
Principal paid on revenue bond maturities	(765,000)	(1,589,699)	(2,354,699)
Proceeds from insurance settlement	16,746,477	-	16,746,477
Payments on note payable to related party	-	(3,695,607)	(3,695,607)
Interest paid on revenue bonds	(614,981)	(1,564,618)	(2,179,599)
Net cash provided by (used for) capital and related financing activities	14,767,242	(8,591,495)	6,175,747
Cash flows from investing activities:			
Net investment purchases, restricted	(19,346,317)	(10,656,971)	(30,003,288)
Interest income	209,840	371,140	580,980
Net cash used for investing activities	(19,136,477)	(10,285,831)	(29,422,308)
Net change in cash	3,135,492	(6,848,775)	(3,713,283)
Cash at beginning of year	22,552,462	14,512,441	37,064,903
Cash at end of year	$ 25,687,954	$ 7,663,666	$ 33,351,620
Reconciliation of operating (loss) income to net cash provided by operating activities:			
Operating (loss) income	$ (12,724,468)	$ 3,715,479	$ (9,008,989)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:			
Depreciation and amortization	10,214,344	2,702,561	12,916,905
Typhoon-related damages	(2,272,370)	-	(2,272,370)
Bad debts	733,980	140,744	874,724
(Increase) decrease in assets:			
Receivables - operations	(222,583)	(30,615)	(253,198)
Interdivisional accounts	(4,493,586)	4,493,586	-
Receivables - officers and employees	(5,629)	3,029	(2,600)
Prepaid expenses	355,892	806	356,698
Increase (decrease) in liabilities:			
Trade and other payables	(237,407)	20,040	(217,367)
Due to related parties	(4,395,712)	(2,324)	(4,398,036)
Accrued expenses	58,166	1,506	59,672
Unearned revenues	20,310,106	986,966	21,297,072
Compensated absences	3,934	(3,227)	707
Net cash provided by operating activities	$ 7,324,667	$ 12,028,551	$ 19,353,218

See Accompanying Independent Auditors' Report.