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

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

YEAR ENDED SEPTEMBER 30, 2008

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Ports Authority:

We have audited the accompanying statements of net assets of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of CPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CPA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commonwealth Ports Authority as of September 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 14 to the financial statements, operations receivable, net, passenger facility charge revenues and beginning net assets as of and for the year ended September 30, 2007 have been restated.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth Ports Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Commonwealth Ports Authority's basic financial statements. The Combining Schedule of Net Assets, Combining Schedule of Revenues, Expenses and Changes in Net Assets and Combining Schedule of Cash Flows as of and for the year ended September 30, 2008 (pages 35 through 37) are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth Ports Authority's management. This supplementary information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2010, on our consideration of internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

March 3, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the Commonwealth Ports Authority's (herein referred to as "CPA") audit report presents our discussion and analysis of CPA's financial performance during the fiscal year ended September 30, 2008. Please read it in conjunction with the more detailed information contained within the accompanying financial statements. The nationally recognized accounting firm of Deloitte & Touche LLC issued an unqualified audit opinion.

INTRODUCTION

CPA is a component unit of the Government of the Commonwealth of the Northern Marianas 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 and have 138 employees on Saipan, 26 employees on Rota and 24 employees on Tinian.

The following discussion and analysis of CPA's activities and financial performance provides an introduction to the financial statements for the fiscal year ended September 30, 2008, with selected comparative information for the fiscal years ended September 30, 2007 and 2006.

The notes to the financial statements are essential to a full understanding of the data contained in the financial statements. This report also presents certain required supplementary information regarding capital assets and long-term debt activity 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 an accrual basis wherein revenues are recognized when earned, not when received and expenses are recorded when incurred, not when paid. Capital assets, except for land, are capitalized and depreciated over their useful lives. Further information is provided in the footnotes of the accompanying audited financial statements.

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

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

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

The Statement of Cash Flows presents information about the cash receipts and cash payments of CPA during the most recent three fiscal years and its ability to generate net cash flows, its ability to meet its obligations as they come due and its needs for external financing.

FINANCIAL HIGHLIGHTS

Total assets for the airport and seaport operations combined in FY2008 decreased by 2% or $4,442,578 from $227,602,011 in FY2007 to $223,159,433.

Net assets for the airport and seaport operations combined in FY2008 increased by 1% or $1,760,583 from $154,290,063 in FY2007 to $156,050,646. Net assets represent the amount that total assets exceed total liabilities.

Enplanement (air passenger departures) declined by 3% and deplanement (air passenger arrivals) declined by 2% during FY2008 from the prior year due to reduction in passenger arrivals to the CNMI.

Seaport inbound cargo decreased by 13% and outbound cargo decreased by 52% in FY2008 from the prior year due to the closure of several garment factories and a decline in orders and inbound commodities from existing factories.

Operating revenues for the airport and seaport operations combined in FY2008 decreased by 9% or $1,353,443 from $15,152,900 in FY2007 to $13,799,457. Airport operating revenues decreased by 12% or $1,175,007 from $9,805,327 in FY2007 to $8,630,320. Seaport operating revenues decreased by 3% or $178,436 from $5,347,573 in FY2007 to $5,169,137.

Operating expenses (excluding depreciation and amortization) for the airport and seaport operations combined in FY2008 decreased by 4% or $561,389 from $13,348,829 in FY2007 to $12,787,440, due to reduction in operating costs.

Due to a revenue shortfall of $3.4 million for the Airport Division and $1.3 million for the Seaport Division at September 30, 2008 or a combined shortfall of $4.7 million, CPA was not in compliance with its 1998 Bond Indenture Agreement (the Agreement). CPA hired a bond consultant to conduct an Airport/Seaport rate study to comply with the Agreement. Currently, both the Airport and Seaport Divisions increased their fees to comply with the Agreement.

Statement of Net Assets

Assets	2008	2007	Variance	%	2006
Current assets	**$ 10,168,093**	**$ 19,299,165**	**$ (9,131,072)**	**-47%**	**$ 16,784,712**
Investments, restricted for construction and debt service purposes	**17,122,945**	**18,729,555**	**(1,606,610)**	**-9%**	**22,572,954**
Noncurrent assets:					
Deferred bond issue cost	1,461,297	1,528,232	(66,935)	-4%	1,595,167
Receivable from related party, net	3,659,613	4,700,947	(1,041,334)	-22%	4,700,947
Capital assets, net	190,747,485	183,344,112	7,403,373	4%	156,386,112
Total noncurrent assets	**195,868,395**	**189,573,291**	**6,295,104**	**3%**	**162,682,226**
	$ 223,159,433	**$ 227,602,011**	**$ (4,442,578)**	**-2%**	**$ 202,039,892**

Statement of Net Assets, Continued

Liabilities and Net Assets	2008	2007	Variance	%	2006
Current liabilities:					
Revenue bonds payable, current portion	$ 2,330,000	$ 1,265,000	$ 1,065,000	84%	$ 1,050,000
Note payable to related party, current portion	-	1,281,659	(1,281,659)	-100%	1,244,439
Contractors payable	3,549,673	9,029,167	(5,479,494)	-61%	4,217,463
Trade and other payables	278,657	224,700	53,957	24%	138,812
Due to related parties	2,184,935	2,524,210	(339,275)	-13%	2,229,182
Accrued expenses	3,273,680	2,362,501	911,179	39%	2,490,901
Deferred income	5,625	5,625	-	0%	10,333
Compensated absences, current portion	275,621	242,557	33,064	14%	284,386
Total current liabilities	**11,898,191**	**16,935,419**	**(5,037,228)**	**-30%**	**11,665,516**
Accrued interest payable	304,994	-	304,994	100%	-
Compensated absences, net of current portion	262,334	505,246	(242,912)	-48%	356,566
Revenue bonds payable, net of current portion	48,839,658	51,126,227	(2,286,569)	-4%	52,349,570
Note payable to related party, net of current portion	5,803,610	4,745,056	1,058,554	22%	5,432,114
Total liabilities	**67,108,787**	**73,311,948**	**(6,203,161)**	**-8%**	**69,803,766**
Net assets:					
Invested in capital assets, net of related debt	135,235,514	126,454,402	8,781,112	7%	97,905,156
Restricted	17,122,945	18,729,555	(1,606,610)	-9%	22,572,954
Unrestricted	3,692,187	9,106,106	(5,413,919)	-59%	11,758,016
Total net assets	**156,050,646**	**154,290,063**	**1,760,583**	**1%**	**132,236,126**
	$ 223,159,433	**$ 227,602,011**	**$ (4,442,578)**	-2%	**$ 202,039,892**

Statement of Revenues, Expenses and Changes in Net Assets

	2008	2007	Variance	%	2006
Operating revenues, net	$ 13,348,228	$ 15,045,048	$ (1,696,820)	-11%	$ 19,426,102
Maintenance and operations expenses	12,787,440	13,348,829	(561,389)	-4%	13,963,912
Income before depreciation	**560,788**	**1,696,219**	**(1,135,431)**	**-67%**	**5,462,190**
Depreciation	9,690,222	10,607,952	(917,730)	-9%	9,614,293
Loss after depreciation	**(9,129,434)**	**(8,911,733)**	**(217,701)**	**2%**	**(4,152,103)**
Non-operating revenues (expenses), net	(1,635,583)	(721,079)	(914,504)	127%	(244,758)
Loss before capital contributions	**(10,765,017)**	**(9,632,812)**	**(1,132,205)**	**12%**	**(4,396,861)**
Capital contributions	12,525,600	31,686,749	(19,161,149)	-60%	18,284,820
Change in net assets	**$ 1,760,583**	**$ 22,053,937**	**$ (20,293,354)**	**-92%**	**$ 13,887,959**
Net assets - beginning	$ 154,290,063	$ 132,236,126	$ 22,053,937	17%	$ 118,348,167
Change in net assets	1,760,583	22,053,937	(20,293,354)	-92%	13,887,959
Net assets - ending	**$ 156,050,646**	**$ 154,290,063**	**$ 1,760,583**	**1%**	**$ 132,236,126**

In FY2008, airport operating revenues decreased by 12% or $1,175,007 compared to FY2007 levels mainly due to decreases in airline passengers, new airline incentive program (100% discount) and concession revenues resulting from the reduction of flights to the CNMI. Seaport operating revenues decreased by 3% due to the reduction in consumer cargoes and the closure of the garment factories.

Statements of Cash Flows

	2008	2007	Variance	%	2006
Cash flows from operating activities	$ 2,738,495	$ (578,367)	$ 3,316,862	-573%	$ 5,140,015
Cash flows from capital and related financing activities	(10,606,114)	(6,134,427)	(4,471,687)	73%	(1,623,868)
Cash flows from investing activities	2,100,007	4,933,030	(2,833,023)	-57%	(1,003,757)
Net change in cash	**(5,767,612)**	**(1,779,764)**	**(3,987,848)**	**224%**	**2,512,390**
Cash and cash equivalents at beginning of year	**9,678,551**	**11,458,315**	**(1,779,764)**	**-16%**	**8,945,925**
Cash and cash equivalents at end of year	**$ 3,910,939**	**$ 9,678,551**	**$ (5,767,612)**	**-60%**	**$ 11,458,315**

Capital Assets

At September 30, 2008, CPA had $190,747,485 invested in capital assets, net of depreciation where applicable, including land, runway, terminal and harbor facilities and equipment, fire and rescue equipment, general transportation, other machinery and equipment and numerous projects under construction. This represents a net increase of $7,403,373 or 4% over last year.

	2008	**2007**	**2006**
Runway and improvements	$ 92,331,622	$ 69,076,791	$ 69,076,791
Other improvements	16,258,401	16,215,774	16,197,486
Terminal facilities and equipment	100,721,909	79,202,607	78,675,814
Harbor facilities	62,101,850	62,101,850	61,997,300
Grounds maintenance and shop equipment	509,692	509,692	506,735
Fire and rescue equipment	11,506,180	11,477,584	10,481,756
Office furniture and fixtures	905,497	871,010	824,171
General transportation	1,010,798	929,612	879,641
Other	2,394,591	2,392,367	871,469
	287,740,540	242,777,287	239,511,163
Less accumulated depreciation	(127,547,389)	(117,828,380)	(107,254,453)
Total capital assets being depreciated	160,193,151	124,948,907	132,256,710
Construction in progress	30,089,905	57,930,776	23,664,973
Land	464,429	464,429	464,429
Total capital assets, net	$ 190,747,485	$ 183,344,112	$ 156,386,112

Please refer to note 6 to the financial statements for additional information regarding capital asset activity.

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 semi-annually 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 $1,435,000. The long-term portion of the bond balance as of September 30, 2008 is $15,375,000.

This 1998 bond was partly 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 from lower interest rates. The reacquisition price exceeded the net carrying amount of the old debt by $503,906 that was netted out against the new debt and 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 debt service payments in the future.

Airport Restricted Investments

Restricted investments for airport construction and debt service purposes represent the unused proceeds of the 1998 Airport Revenue Bonds deposited with the Trustee. The balances as of September 30, 2008 are:

Bond Reserve Fund	$ 1,555,389
Construction Fund	998,519
Bond Fund	284,982
Maintenance and Operation	464,713
Reserve Fund	448,588
Total	$ 3,752,191

1998 Seaport Revenue Bonds

On March 26, 1998, CPA issued a 1998 Series A $33,775,000 tax-exempt revenue bond. Interest on the bond is payable at 6.6% on March 15 and September 15 of each year, commencing September 1998 and ending in the year 2028.

Payments for the 1998 Seaport bond are current. The current portion of the 1998 Seaport bond principal is $740,000. The long-term portion of the bond balance as of September 30, 2008 is $27,685,000.

The seaport bond proceeds were partly used for a current refunding of $22,470,000 of 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 that was netted out against the new debt and 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 debt service payments in the future.

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 purpose of financing primarily 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 above 2005 Senior Series A bonds payable at a semi-annual interest rate of 5.5% on March 15 and September 15 of each year. Payments commenced on March 15, 2008.

Payments for the 2005 Seaport bond are current. The current portion of the 2005 Seaport bond principal is $155,000. The long-term portion of the bond balance as of September 30, 2008 is $6,920,000.

Seaport Restricted Investments

Bond Reserve Fund	$ 3,478,814
Supplemental Reserve Fund	8,038,346
Reimbursement Fund	5,806
Bond Fund	489,094
Maintenance and Operation	493,610
Construction Fund	557,219
Interest Fund	69,468
Revenue Fund	238,397
Total	$ 13,370,754

FY2008 Bond/Debt Ratio Noncompliance

	Airport	**Seaport**
Required revenues for bond compliance	$ 12,287,723	$ 6,727,176
Actual revenues collected	9,264,470	5,474,433
Variance (noncompliance)	$ (3,023,253)	$ (1,252,743)

The drop in revenue in FY2008 resulted in noncompliance with the revenue requirements imposed by the Airport and Seaport Bond Indentures. CPA was cited for noncompliance with the Airport and Seaport Bond Indentures.

In accordance with the Bond Indentures, CPA hired a bond consultant to conduct an airport and seaport rate study to comply with the revenue requirements for the Airport and Seaport Divisions.

Notes Payable to Commonwealth Development Authority

CPA signed a promissory note with the Commonwealth Development Authority (CDA) with interest at 2.5% per annum. Payments are due quarterly and the note matures on November 16, 2014. The balance is $5,803,610 as of September 30, 2008. The CDA promissory note is subordinate to CPA's Seaport bond obligations. Beginning January 2008, Principle and interest payments have been deferred for five years and two years, respectively.

Please refer to notes 7 and 8 to the financial statements for additional information regarding revenue bonds payable and notes payable to related party.

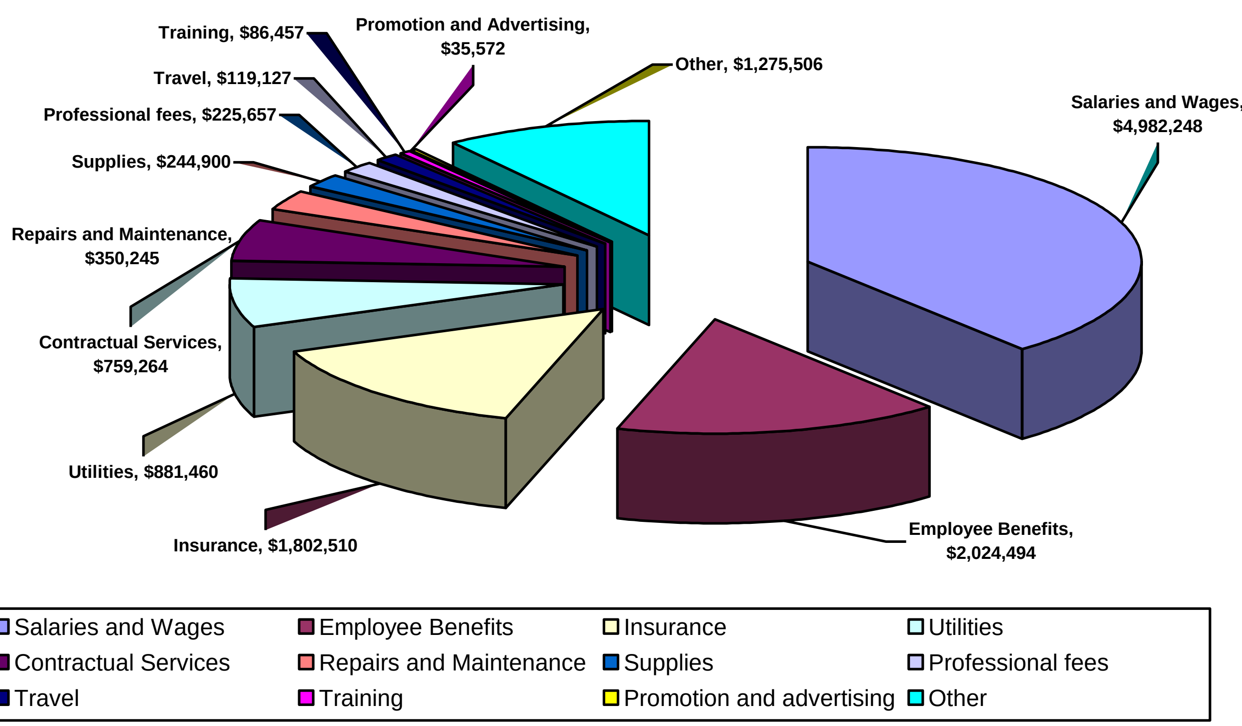
Operating Revenues (Combined)

	FY2008 Audited	**FY2007** Audited	**Change**	**%**	**FY2006** Audited
Airport revenues	$ 8,630,320	$ 9,805,327	$ (1,175,007)	-12%	$ 10,951,105
Seaport revenues	5,169,137	5,347,573	(178,436)	-3%	9,005,950
Total operating revenues	**$ 13,799,457**	**$ 15,152,900**	**$ (1,353,443)**	**-9%**	**$ 19,957,055**

Airport revenues declined by 12% or $1,175,007 overall when compared to FY2007 mainly due to a drastic drop in air passenger revenues, new airline incentive program (100% discount) and reduction of flights to the CNMI. Seaport revenues decreased by 3% or $178,436 overall when compared to FY2007. The decrease is due to a reduction in consumer cargo and the pull out of the garment industry.

Operating Expenses (Combined)

	FY2008 Audited	**FY2007** Audited	**Change**	**%**	**FY2006** Audited
Personnel costs	$ 7,006,742	$ 7,812,531	$ (805,789)	-10%	$ 7,853,859
Maintenance and operations expenses	5,780,698	5,536,298	244,400	4%	6,110,053
Total operating expenses	**$ 12,787,440**	**$ 13,348,829**	**$ (561,389)**	**-4%**	**$ 13,963,912**



Operating expenses (excluding depreciation and amortization), for the airport and seaport operations combined in FY 2008 decreased by 4% or $561,389 from $13,348,829 in FY2007 to $12,787,440 due to reduction in operating costs.

Airport Deplanement or Arrivals (Number of Passengers) for Each Airport

	FY2008	FY2007	Change	%	FY2006
Saipan	460,437	470,013	-9,576	-2%	511,720
Rota	18,589	19,409	- 820	-4%	28,963
Tinian	29,263	30,258	-995	-3%	37,495
Total	**508,289**	**519,680**	**-11,391**	-2%	**578,178**

Deplanement or passenger arrivals dropped by 2% or 11,391 passengers in FY2008 as compared to 2007 due to the reduction of flights to the CNMI.

Airport Enplanement or Departures (Number of Passengers) for Each Airport

	FY2008	FY2007	Change	%	FY2006
Saipan	460,933	473,249	-12,316	-3%	516,366
Rota	19,048	20,326	-1,278	-6%	29,544
Tinian	31,020	35,427	- 4,407	-12%	44,597
Total	**511,001**	**529,002**	**- 18,001**	-3%	**590,507**

Enplanement or passenger departures dropped by 3% or 18,001 passengers in FY 2008 as compared to FY2007 due to the reduction of flights to the CNMI.

Seaport Inbound Cargo Revenue Tons

	FY2008	FY2007	Change	%	FY2006
Saipan	389,338	462,233	-72,895	-16%	553,267
Rota	10,406	12,090	-1,684	-14%	13,000
Tinian	33,790	23,174	10,616	46%	28,584
Total	**433,534**	**497,497**	**-63,963**	-13%	**594,851**

Seaport inbound cargo in terms of revenue tonnage dropped by 13% or 63,963 revenue tons due to the closure of several garment factories and a decline in orders and inbound commodities from existing factories.

Seaport Outbound Cargo Revenue Tons

	FY2008	FY2007	Change	%	FY2006
Saipan	44,834	99,855	-55,021	-55%	115,555
Rota	1,761	1,103	658	60%	665
Tinian	3,448	2,373	1,075	45%	3,101
Total	**50,043**	**103,331**	**-53,288**	-52%	**119,321**

Seaport outbound cargo in terms of revenue tonnage dropped by 52% or 53,288 revenue tons due to the closure of several garment factories and a decline in orders from existing factories.

ECONOMIC OUTLOOK

Subsequent to fiscal year 2008, the world economy suffered a serious recession, which was further exacerbated by a swine flu pandemic which had a major impact on air travel. The effect and length of these two factors are unknown at this time. Further, the closure of the CNMI's last garment factory had a major impact on CPA's seaport activity. Saipan's seaport activity for the first five months of fiscal year 2009 indicates a 23% decrease in inbound freight and a 45% decrease in outbound freight over the prior year.

This decline in activity has been very noticeable. However, the financial impact of this decline has been offset by two major policy changes, as follows:

1. Port charges were substantially increased (90%) at the beginning of 2009. This increase has gradually been absorbed by the community and appears sustainable.

2. The previously initiated Airlines Rebate Program has been discontinued. This program refunded 100% of the airline landing fees to the airlines. Developed as an incentive to promote additional tourism, the program was a failure. Canceling the program will greatly aid the revenue and the cash flow of the airport division.

Other economic factors which can impact CPA include the federalization of CNMI's immigration and the enforcement of U.S. minimum wage standards.

Currently, the CNMI enjoys niche tourism markets in Russia and China due to the application of local immigration standards. Beginning in fiscal year 2010, when the U.S. takes over, both Chinese and Russian tourists will be required to obtain U.S. visas before entering the CNMI. CPA's major markets in Japan and Korea will not be affected.

While the U.S. minimum wage application will not impact CPA's direct payroll, it will impact many of the service suppliers to CPA, so increases in operating costs can be anticipated.

The long-term outlook indicates some optimism with the expansion of the military presence in Guam and the announced intention to use Tinian as a training center. This would possibly increase air traffic as Saipan would be seen as an inexpensive weekend getaway vacation for military personnel. Further, construction and supply demands for the Tinian training center could greatly increase seaport activity.

CONTACTING CPA'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of CPA's finances and to demonstrate its accountability for the monies received. The Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in the report on the audit of CPA's financial statements which is dated August 5, 2008. That Discussion and Analysis explains the major factors impacting the 2007 financial statements. If you have questions about this report or need additional financial information, contact Ms. Frances C. Mafnas, Comptroller, P.O. Box 501055, Saipan, MP 96950-1055, or call (670) 237-6500 or email at cpa.plantacct@pticom.com.

COMMONWEALTH PORTS AUTHORITY

Statements of Net Assets
September 30, 2008 and 2007

ASSETS	2008	2007 (As Restated)
Current assets:		
Cash and cash equivalents	$ 3,910,939	$ 9,678,551
Receivables:		
Grantor agencies	1,522,401	4,470,495
Operations, net	3,730,575	4,944,500
Related parties	855,878	53,181
Officers and employees	60,927	55,069
Prepaid expenses	87,373	97,369
Investments, restricted for construction and debt service purposes	17,122,945	18,729,555
Total current assets	27,291,038	38,028,720
Noncurrent assets:		
Deferred bond issue costs	1,461,297	1,528,232
Receivable from related party, net	3,659,613	4,700,947
Capital assets, net	190,747,485	183,344,112
Total noncurrent assets	195,868,395	189,573,291
	$ 223,159,433	$ 227,602,011
LIABILITIES AND NET ASSETS		
Current liabilities:		
Revenue bonds payable, current portion	$ 2,330,000	$ 1,265,000
Note payable to related party, current portion	-	1,281,659
Contractors payable	3,549,673	9,029,167
Trade and other payables	278,657	224,700
Due to related parties	2,184,935	2,524,210
Accrued expenses	3,273,680	2,362,501
Deferred income	5,625	5,625
Compensated absences, current portion	275,621	242,557
Total current liabilities	11,898,191	16,935,419
Accrued interest payable	304,994	-
Compensated absences, net of current portion	262,334	505,246
Revenue bonds payable, net of current portion	48,839,658	51,126,227
Note payable to related party, net of current portion	5,803,610	4,745,056
Total liabilities	67,108,787	73,311,948
Commitment and contingencies		
Net assets:		
Invested in capital assets, net of related debt	135,235,514	126,454,402
Restricted	17,122,945	18,729,555
Unrestricted	3,692,187	9,106,106
Total net assets	156,050,646	154,290,063
	$ 223,159,433	$ 227,602,011

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2008 and 2007

	2008	2007 (As Restated)
Operating revenues:		
Concession and lease income	$ 4,476,494	$ 4,213,807
Aviation fees	4,120,192	5,866,390
Seaport fees	3,532,991	3,870,641
Other	1,669,780	1,202,062
	13,799,457	15,152,900
Less bad debts	(451,229)	(107,852)
Operating revenues, net	13,348,228	15,045,048
Operating expenses:		
Depreciation and amortization	9,690,222	10,607,952
Salaries and wages	4,982,248	5,372,951
Employee benefits	2,024,494	2,439,580
Insurance	1,802,510	2,036,874
Utilities	881,460	597,068
Contractual services	759,264	736,042
Repairs and maintenance	350,245	247,852
Supplies	244,900	358,138
Professional fees	225,657	344,622
Travel	119,127	176,011
Training	86,457	112,987
Promotion and advertising	35,572	38,546
Other	1,275,506	888,158
Total operating expenses	22,477,662	23,956,781
Operating loss	(9,129,434)	(8,911,733)
Non-operating revenues (expenses):		
Passenger facility charges	2,160,681	1,925,589
Interest income	493,397	1,089,631
Interest expense	(2,974,460)	(3,669,364)
Other expense	(1,248,266)	-
Amortization of bond issue costs	(66,935)	(66,935)
Total non-operating revenues (expenses), net	(1,635,583)	(721,079)
Loss before capital contributions	(10,765,017)	(9,632,812)
Capital contributions	12,525,600	31,686,749
Change in net assets	1,760,583	22,053,937
Net assets at beginning of year, as restated	154,290,063	132,236,126
Net assets at end of year	$ 156,050,646	$ 154,290,063

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	2008	2007 (As Restated)
Cash flows from operating activities:		
Cash received from customers	$ 14,777,981	$ 12,435,374
Cash payments to suppliers for goods and services	(4,822,896)	(5,308,061)
Cash payments to employees for services	(7,216,590)	(7,705,680)
Net cash provided by (used for) operating activities	2,738,495	(578,367)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(22,041,522)	(32,754,248)
Capital contributions received	14,225,428	30,021,777
Passenger facility charge receipts	2,160,681	1,925,589
Principal paid on revenue bond maturities	(1,265,000)	(1,050,000)
Payments on note payable to related party	(223,105)	(649,838)
Interest paid on revenue bonds and note payable to related party	(3,462,596)	(3,627,707)
Net cash used for capital and related financing activities	(10,606,114)	(6,134,427)
Cash flows from investing activities:		
Net change in restricted investments	1,606,610	3,843,399
Interest income	493,397	1,089,631
Net cash provided by investing activities	2,100,007	4,933,030
Net change in cash and cash equivalents	(5,767,612)	(1,779,764)
Cash and cash equivalents at beginning of year	9,678,551	11,458,315
Cash and cash equivalents at end of year	$ 3,910,939	$ 9,678,551
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	$ (9,129,434)	$ (8,911,733)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	9,690,222	10,607,952
Bad debts	451,229	107,852
(Increase) decrease in assets:		
Receivables - operations	762,696	(2,692,953)
Receivables - officers and employees	(5,858)	(16,819)
Prepaid expenses	9,996	(19,760)
Receivables - related parties	238,637	(7,565)
Increase (decrease) in liabilities:		
Accounts payable - trade and other	53,957	85,888
Accounts payable - related parties	(339,275)	295,028
Accrued expenses	1,216,173	(128,400)
Deferred income	-	(4,708)
Compensated absences	(209,848)	106,851
Net cash provided by (used for) operating activities	$ 2,738,495	$ (578,367)

See accompanying notes to financial statements.

(1) Organization

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

(2) Summary of Significant Accounting Policies

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

Basis of Accounting

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

Budgets

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

Concentrations of Credit Risk

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

At September 30, 2008 and 2007, 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, 2008 and 2007, concentrations of credit risk result from receivables from significant customers and receivable from a related party which represent 62% and 42%, respectively, of total receivables. Management assesses the risk of loss and provides an allowance for doubtful accounts to compensate for known credit risk.

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

For the purposes of the statements of net assets and the statements of cash flows, cash and cash equivalents is defined as cash on hand, demand deposits, savings and unrestricted short-term investments in U.S. Treasury obligations with maturity dates within three months of the date acquired. Short-term investment accounts established and set aside for construction and debt service purposes are separately classified as investments in the accompanying financial statements.

Capitalization of Interest

CPA capitalizes interest in order to recognize all costs associated with the non-contributed airport and seaport construction projects based on CPA's weighted average borrowing rate. The amount of interest eligible for capitalization was $531,567 at September 30, 2008. During the year ended September 30, 2007, management of CPA determined that the amount of interest eligible for capitalization was not material. No interest is capitalized for projects financed with grant proceeds or Passenger Facility Charges.

Investments

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

Allowance for Doubtful Accounts

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

Capital Assets

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

Bond Discounts and Issuance Costs

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

(2) Summary of Significant Accounting Policies, Continued

Passenger Facility Charges

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

Retirement Plan

CPA contributes to the Northern Mariana Islands Retirement Fund (the Fund), a cost-sharing multiple employer defined benefit pension plan administered by the CNMI. The Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the CNMI Government and CNMI agencies, instrumentalities, and public corporations. CNMI Public Law 6-17, the Northern Mariana Retirement Fund Act of 1988 assigns the authority to establish and amend benefit provisions to the Fund's Board of Trustees. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

Plan members are required to contribute 6.5% and 9.0% of their annual covered salary for Class I and Class II members, respectively, and CPA is required to contribute at an actuarially determined rate. The current rate is 36.77% of annual covered payroll. The contribution requirements of plan members and CPA are established and may be amended by the Fund's Board of Trustees. CPA's recorded contributions to the Fund for the years ended September 30, 2008, 2007 and 2006 were $1,818,905, $1,976,243, $2,084,913, respectively, equal to the required contributions for each year.

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

Net Assets

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, requires CPA to establish net asset categories as follows:

- Invested in capital assets net of related debt; capital assets, net of accumulated depreciation, plus deferred bond issuance cost, less outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

(2) Summary of Significant Accounting Policies, Continued

Net Assets, Continued

- Restricted:
  - Nonexpendable - Net assets subject to externally imposed stipulations that CPA maintain them permanently. For the years ended September 30, 2008 and 2007, CPA does not have nonexpendable restricted net assets.
  - Expendable - Net assets whose use by CPA is subject to externally imposed stipulations that can be fulfilled by actions of CPA pursuant to those stipulations or that expire by the passage of time.
- Unrestricted; Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated vacation leave liability as of September 30, 2008 and 2007 is $537,955 and $747,803, respectively.

Operating and Non-Operating Revenues and Expenses

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

New Accounting Standards

During fiscal year 2008, CPA implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions,* GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues* and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPA.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPA.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPA.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CPA.

Estimates

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

(3) Deposits and Investments

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

(3) Deposits and Investments, Continued

Deposits

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

Category 1 Deposits that are federally insured or collateralized with securities held by CPA or its agent in CPA's name;

Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in CPA's name; or

Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in CPA's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, CPA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in CPA's name. CPA does not have a deposit policy for custodial credit risk.

As of September 30, 2008 and 2007, total cash and cash equivalents were $3,910,939 and $9,678,551, respectively, and the corresponding bank balances were $4,507,931 and $9,968,110, respectively. Of the bank balance amounts, $3,411,380 and $8,849,729, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of $1,096,551 and $1,118,381, respectively, represent short-term investments held and administered by CPA's trustees in accordance with various trust agreements. Based on negotiated trust and custody contracts, all of these deposits were held in CPA's name by CPA's custodial financial institutions at September 30, 2008 and 2007. As of September 30, 2008 and 2007, bank deposits in the amount of $100,000 were FDIC insured. CNMI law does not require component unit funds to be collateralized and thus CPA's funds, in excess of FDIC insurance, are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments

Investments in U.S. Treasury obligations restricted for construction and debt service purposes represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds. These investments are summarized as follows:

	2008	2007
Airport Division		
Bond Reserve Fund	$ 1,555,389	$ 1,525,233
Construction Fund	998,519	979,159
Bond Fund	284,982	262,205
Maintenance and Operation	464,713	404,586
Revenue Fund	448,588	-
	3,752,191	3,171,183

(3) Deposits and Investments, Continued

Investments, Continued

Seaport Division	2008	2007
Bond Reserve Fund	3,478,814	3,489,728
Supplemental Reserve Fund	8,038,346	8,059,119
Reimbursement Fund	5,806	5,693
Bond Fund	489,094	448,539
Maintenance and Operation	493,610	344,926
Construction Fund	557,219	3,101,624
Interest Fund	69,468	108,743
Revenue Fund	238,397	-
	13,370,754	15,558,372
	$ 17,122,945	$ 18,729,555

GASB Statement No. 3 previously required government entities to present investment risks in terms of whether the investments fell into the following categories:

Category 1 Investments that are insured or registered, or securities held by CPA or its agent in CPA's name;

Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in CPA's name; or

Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in CPA's name.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, CPA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. CPA's investments are held and administered by CPA's trustees in accordance with various trustee agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held by the counterparty, or by its trust department or agent but not in CPA's name by CPA's custodial financial institutions at September 30, 2008 and 2007. Accordingly, these investments are exposed to custodial credit risk.

(3) Deposits and Investments, Continued

Investments, Continued

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for CPA. As of September 30, 2008 and 2007, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2008 and 2007, investments at fair value consist of investments in U.S. Government money market placements.

(4) Receivables From Federal Grantor Agencies

Receivables from federal grantor agencies as of September 30, 2008 and 2007, are as follows:

	2008	2007
U.S. Department of Transportation Federal Aviation Administration		
Saipan International Airport, AIP Project No. 3-69-0002-31/32/50/53	$ 425,924	$ 192,186
Saipan International Airport, AIP Project No. 3-69-0002-37	(50,079)	(50,079)
Saipan International Airport, AIP Project No. 3-69-0002-38/41/52/55	-	1,423,088
Saipan International Airport, AIP Project No. 3-69-0002-43/56	-	322,246
Saipan International Airport, AIP Project No. 3-69-0002-45/49	(32,592)	(186,640)
Saipan International Airport, AIP Project No. 3-69-0002-48	21,341	-
Saipan International Airport, AIP Project No. 3-69-0002-51	-	131,775
Saipan International Airport, AIP Project No. 3-69-0002-54	-	17,692
Saipan International Airport, AIP Project No. 3-69-0002-57	4,081	-
Saipan International Airport, AIP Project No. 3-69-0002-58	580	-
Rota International Airport, AIP Project No. 3-69-0003-19/20	30,741	-
Master Plan Study (Pagan), AIP Project No. 3-69-0004-01	-	7,768
Tinian International Airport, AIP Project No. 3-69-0011-15/17/19/20	463,090	675,502
Tinian International Airport, AIP Project No. 3-69-0011-18	6,623	148,381
	869,709	2,681,919
Transportation Security Administration		
Homeland Security	275,956	-
Security reimbursement	62,994	205,351
National Explosives Detection Canine Team Program	150,500	-
U.S. Department of the Interior		
OMIP	-	110,436
Rota Extension Runway	-	332,041
Tinian Terminal Building Expansion	-	392,789
U.S. Department of Homeland Security		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	108,201	147,274
Law Enforcement Terrorist Prevention Program	-	23,263

(4) Receivables From Federal Grantor Agencies, Continued

	2008	2007
Passed Through from CNMI Government		
Rota Charter Flight	54,112	-
Tinian Harbor	929	577,422
	$ 1,522,401	$ 4,470,495

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

(5) Accounts Receivable from Operations

CPA extends credit to organizations and individuals, substantially all of whom are located in the CNMI, Japan, the United States and Korea. CPA's accounts receivable from operations as of September 30, 2008 and 2007, are as follows:

	2008	2007
Accounts receivable	$ 5,386,770	$ 6,183,222
Less allowance for doubtful accounts	(1,656,195)	(1,238,722)
	$ 3,730,575	$ 4,944,500

(6) Capital Assets

Capital asset balances consist of the following as of September 30, 2008 and 2007:

	Estimated Useful Lives	Balance October 1, 2007	Increases	Decreases	Balance September 30, 2008
Assets not being depreciated:					
Construction in progress		$ 57,930,776	$ 16,671,609	$ (44,512,480)	$ 30,089,905
Land		464,429	-	-	464,429
Total capital assets not being depreciated		58,395,205	16,671,609	(44,512,480)	30,554,334
Capital assets being depreciated:					
Runway and improvements	20 years	69,076,791	23,254,831	-	92,331,622
Other improvements	3 - 10 years	16,215,774	42,627	-	16,258,401
Terminal facilities	20 years	69,581,642	21,299,911	-	90,881,553
Terminal equipment	2 - 10 years	9,620,965	219,391	-	9,840,356
Harbor facilities	20 years	62,101,850	-	-	62,101,850
Grounds maintenance and shop equipment	2 - 5 years	509,692	-	-	509,692
Fire and rescue equipment	2 - 8 years	11,477,584	32,138	(3,542)	11,506,180
Office furniture and fixtures	2 - 10 years	871,010	34,487	-	905,497
General transportation	3 - 5 years	929,612	81,186	-	1,010,798
Other	3 - 5 years	2,392,367	2,224	-	2,394,591
		242,777,287	44,966,795	(3,542)	287,740,540
Less accumulated depreciation		(117,828,380)	(9,690,222)	(28,787)	(127,547,389)
Total capital assets being depreciated		124,948,907	35,276,573	(32,329)	160,193,151
Total capital assets, net		$ 183,344,112	$ 51,948,182	$ (44,544,809)	$ 190,747,485

(6) Capital Assets, Continued

	Estimated Useful Lives	Balance October 1, 2006	Increases	Decreases	Balance September 30, 2007
Assets not being depreciated:					
Construction in progress		$ 23,664,973	$ 37,159,576	$ (2,893,773)	$ 57,930,776
Land		464,429	-	-	464,429
Total capital assets not being depreciated		24,129,402	37,159,576	(2,893,773)	58,395,205
Capital assets being depreciated:					
Runway and improvements	20 years	69,076,791	-	-	69,076,791
Other improvements	3 - 10 years	16,197,486	28,340	(10,052)	16,215,774
Terminal facilities	20 years	69,083,593	498,049	-	69,581,642
Terminal equipment	2 - 10 years	9,592,221	31,569	(2,825)	9,620,965
Harbor facilities	20 years	61,997,300	104,550	-	62,101,850
Grounds maintenance and shop equipment	2 - 5 years	506,735	2,957	-	509,692
Fire and rescue equipment	2 - 8 years	10,481,756	995,828	-	11,477,584
Office furniture and fixtures	2 - 10 years	824,171	46,839	-	871,010
General transportation	3 - 5 years	879,641	83,990	(34,019)	929,612
Other	3 - 5 years	871,469	1,520,898	-	2,392,367
		239,511,163	3,313,020	(46,896)	242,777,287
Less accumulated depreciation		(107,254,453)	(10,607,952)	34,025	(117,828,380)
Total capital assets being depreciated		132,256,710	(7,294,932)	(12,871)	124,948,907
Total capital assets, net		$ 156,386,112	$ 29,864,644	$ (2,906,644)	$ 183,344,112

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

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

(7) Revenue Bonds Payable

Airport Division

On March 26, 1998, CPA issued $20,050,000 of tax-exempt airport revenue bonds which in part were used for a current refunding of $8,250,000 of 1987 Series B tax-exempt airport revenue bonds. The refunding was undertaken to consolidate existing bonds with new bonds issued for the purpose of financing various airport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $503,906. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $688,620 and an increase of $7,616,151 in future debt service payments. Interest on the bonds is payable semi-annually at 6.25% on March 15 and September 15 of each year.

(7) Revenue Bonds Payable, Continued

Airport Division, Continued

Revenue bonds payable as of September 30, 2008 and 2007, consist of the following:

	2008	2007
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2009 and 2028 are listed below.	$ 16,810,000	$ 17,230,000
Current portion	1,435,000	420,000
Long-term portion	$ 15,375,000	$ 16,810,000

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
2009	$ 1,435,000	$ 1,036,719	$ 2,471,719
2010	445,000	947,031	1,392,031
2011	470,000	918,438	1,388,438
2012	505,000	887,969	1,392,969
2013	530,000	855,625	1,385,625
2014 - 2018	3,210,000	3,719,063	6,929,063
2019 - 2023	4,335,000	2,547,969	6,882,969
2024 - 2028	5,880,000	963,750	6,843,750
	$ 16,810,000	$ 11,876,564	$ 28,686,564

Seaport Division

On March 26, 1998, CPA issued $33,775,000 of Senior Series A tax-exempt seaport revenue bonds which in part were used for a current refunding of $22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $1,345,593. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $1,724,777 and a decrease of $6,983,345 in future debt service payments. Interest on the bonds is payable semi-annually at 6.6% on March 15 and September 15 of each year.

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

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, 2008 and 2007, consist of the following:

	2008	2007
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2009 and 2028 are listed below.	$ 28,425,000	$ 29,120,000
Special Revenue Bonds, tax exempt, 2005 Senior Series A: interest and annual installments payable to the Bond Trustee between 2009 and 2031 are listed below.	7,075,000	7,225,000
Deferred costs of debt refunding on 1998 Senior Series A bonds	(1,030,410)	(1,069,062)
Discount on 2005 Senior Series A bonds	(109,932)	(114,711)
	34,359,658	35,161,227
Current portion	895,000	845,000
Long-term portion	$ 33,464,658	$ 34,316,227

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

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

Year ending September 30,	Principal	Interest	Total
2009	$ 895,000	$ 2,236,493	$ 3,131,493
2010	950,000	2,177,368	3,127,368
2011	1,015,000	2,114,393	3,129,393
2012	1,075,000	2,047,402	3,122,402
2013	1,145,000	1,976,233	3,121,233
2014 - 2018	6,895,000	8,646,110	15,541,110
2019 - 2023	9,355,000	6,057,699	15,412,699
2024 - 2028	12,670,000	2,547,050	15,217,050
2029 - 2031	1,500,000	126,499	1,626,499
	$ 35,500,000	$ 27,929,247	$ 63,429,247

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

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, 2008 and 2007, total deposits in the Seaport supplemental reserve fund amounted to $8,038,346 and $8,059,119, 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.

The 1998 Senior Bonds for the seaport are not subject to optional redemption prior to their stated maturity.

b) Mandatory redemption - The 1998 Senior Bonds for the airport and seaport are subject to mandatory redemption, in part on the earliest Interest Payment Date for which notice can be given after completion of the Project or after three years from the date of issuance of the 1998 Senior Bonds, from moneys transferred from the 1998 Series A Account within the Construction Fund to the Optional Redemption Fund in accordance with Section 3.03, at a redemption price equal to 100% of the principal amount of such 1998 Senior Bonds to be redeemed plus accrued interest, if any, to the date fixed for redemption, without premium. On July 17, 2009, CPA received notice of redemption related to its 1998 Senior Series A Airport Bonds amounting to $990,000 due September 15, 2009, payable from its Construction Fund account. Accordingly, it is included in the revenue bonds payable, current portion in the accompanying financial statements.

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

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%

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.

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

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 for such maturity d), at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.

Pledge of Future Revenues

CPA has pledged future gross revenues to repay $20,050,000 and $33,775,000 in 1998 Senior Series A and $7,225,000 of 2005 Senior Series A tax-exempt special revenue bonds. Proceeds from the bonds provided financing for capital assets. The bonds are payable from pledged gross revenues. The bonds are payable through fiscal years 2028, 2028 and 2031, respectively. The total principal and interest payable for the remainder of the life of these bonds is $92,815,518 and 97,436,503 at September 30, 2008 and 2007, respectively. Pledged gross revenues received during the years ended September 30, 2008 and 2007 were $13,799,457 and $15,152,900, respectively. Debt service payments during the years ended September 30, 2008 and 2007 amounted to $4,620,985 and $4,480,128 representing 33% and 30%, 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, 2008, except for the collection of gross revenues requirement related to the Airport and Seaport bond indentures. Section 6.11 of the Airport and Seaport Bond Indenture Agreements (Indenture) state that CPA shall impose, levy, enforce and collect such fees/dockage, entry and wharfage fees, tariffs, lease rentals, licensing fees and other fees and charges in aggregate amount with respect to each fiscal year to produce gross revenues to comply with subsections (A)(1), (A)(2), (A)(3) and (A)(4) of Section 6.11. CPA failed to comply with this requirement for the Airport Division and the Seaport Division for the years ended September 30, 2008 and 2007.

(7) Revenue Bonds Payable, Continued

Section 6.11(B) of the Indentures state that if the financial statements prepared pursuant to Section 6.06(B) of the Indentures reflect that at the end of a fiscal year, net revenues are less than the amount required by Section 6.11(A) for such fiscal year or if the revenues are less than the aggregate amount of all transfers required by Section 5.02(a) through (e) for such fiscal year, CPA shall not be in default under Section 7.01 if within sixty days after the date of such financial statements or the end of the fiscal year, CPA shall employ an independent consultant to make recommendations as to a revision of the rates, fees and charges or the methods of operation of the airports and seaports. If such recommendations fail to meet the requirements of Section 6.11(a), such deficiency will constitute an event of default under Section 7.01. CPA hired an independent consultant for the Airport and Seaport Divisions during the year ended September 30, 2008 to comply with Section 6.11(B) of the Indentures.

Changes in long-term liabilities for the years ended September 30, 2008 and 2007, are as follows:

	Balance October 1, 2007	Additions	Reductions	Balance September 30, 2008	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	$ 17,230,000	$ -	$ (420,000)	$ 16,810,000	$ 1,435,000
Seaport 1998 Senior Series A	29,120,000	-	(695,000)	28,425,000	740,000
Seaport 2005 Senior Series A	7,225,000	-	(150,000)	7,075,000	155,000
Note payable	6,026,715	-	(223,105)	5,803,610	-
Deferred amounts:					
Deferred costs of debt refunding	(1,069,062)	-	38,652	(1,030,410)	-
Discount on bonds	(114,711)	-	4,779	(109,932)	-
	58,417,942	-	(1,444,674)	56,973,268	2,330,000
Other:					
Compensated absences	747,803	356,097	(565,945)	537,955	275,621
Accrued interest	-	304,994	-	304,994	-
	$ 59,165,745	$ 661,091	$ (2,010,619)	$ 57,816,217	$ 2,605,621

	Balance October 1, 2006	Additions	Reductions	Balance September 30, 2007	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	$ 17,625,000	$ -	$ (395,000)	$ 17,230,000	$ 420,000
Seaport 1998 Senior Series A	29,775,000	-	(655,000)	29,120,000	695,000
Seaport 2005 Senior Series A	7,225,000	-	-	7,225,000	150,000
Note payable	6,676,553	-	(649,838)	6,026,715	1,281,659
Deferred amounts:					
Deferred costs of debt refunding	(1,105,940)	-	36,878	(1,069,062)	-
Discount on bonds	(119,490)	-	4,779	(114,711)	-
	60,076,123	-	(1,658,181)	58,417,942	2,546,659
Other:					
Compensated absences	640,952	469,934	(363,083)	747,803	242,557
	$ 60,717,075	$ 469,934	$ (2,021,264)	$ 59,165,745	$ 2,789,216

(8) Note Payable to Related Party

CPA's note payable is as follows:

	2008	2007
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 November 16, 2014. Principal and interest payments in the amount of $204,113 are due quarterly. Beginning January 2008, principal and interest payments have been deferred for five and two years, respectively.	$ 5,803,610	$ 6,026,715
Less amounts due within one year	-	1,281,659
Long-term debt	$ 5,803,610	$ 4,745,056

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

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

Year ending September 30,	Principal	Interest	Total
2009	$ -	$ -	$ -
2010	-	619,575	619,575
2011	-	76,057	76,057
2012	-	57,373	57,373
2013	4,762,833	38,217	4,801,050
2014 - 2018	1,040,777	20,097	1,060,874
	$ 5,803,610	$ 811,319	$ 6,614,929

(9) Risk Management

CPA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CPA has elected to purchase commercial insurance from independent third parties for the risks of losses at its airport facilities to which it is exposed. CPA has also elected to purchase partial commercial insurance from independent third parties for risk of losses at its seaport facilities to which it is exposed. Except as disclosed in note 13, settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(10) Related Party Transactions

Total related party transactions for the years ended September 30, 2008 and 2007, and the related receivable and payable balances, are as follows:

(10) Related Party Transactions, Continued

	2008			
	Revenues and Capital Contributions	Expenses	Receivables	Payables
Commonwealth Development Authority	$ -	$ 129,395	$ -	$ -
Commonwealth Utilities Corporation	-	881,460	4,515,491	-
CNMI Government	2,078,701	122,675	-	1,475,196
Northern Mariana Islands Retirement Fund	-	1,818,905	-	709,739
	$ 2,078,701	$ 2,952,435	$ 4,515,491	$ 2,184,935

	2007			
	Revenues and Capital Contributions	Expenses	Receivables	Payables
Commonwealth Development Authority	$ -	$ 146,306	$ -	$ -
Commonwealth Utilities Corporation	-	597,068	4,700,947	39,265
CNMI Government	3,492,996	125,403	-	1,352,521
Northern Mariana Islands Retirement Fund	-	1,976,243	-	1,132,424
Other	9,754	-	53,181	-
	$ 3,502,750	$ 2,845,020	$ 4,754,128	$ 2,524,210

A note payable to CDA amounted to $5,803,610 and $6,026,715 at September 30, 2008 and 2007, respectively. Interest expense on this note for the years ended September 30, 2008 and 2007 amounted to $129,395 and $146,306, respectively.

CPA and the Commonwealth Utilities Corporation (CUC) have entered into Memorandums of Agreement (MOAs) specifying terms and conditions of the construction of a Sewerline Project. CPA, as signatory party to the project contract, paid for all payments of the project. CUC has agreed to reimburse CPA $4,700,947 of project costs.

In accordance with the MOAs, CUC shall make installments payments over a term not to exceed five years, commencing on July 1, 2008, with interest at 6.25%. CPA has the right of offset/credit utility charges in lieu of payments. The offset/credit procedure shall terminate when CUC begins actual payments on the amount owed or total offset/credits equal the principal amount. At September 30, 2008 and 2007, the receivable from CUC amounted to $4,515,491 and $4,700,947, respectively.

(10) Related Party Transactions, Continued

On June 30, 2008, CPA and CUC entered into an amended and superceding 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 in July 1, 2008. Total utility charges offset during the year ended September 30, 2008 amounted to $24,567. Due to the potential uncollectability of the remaining amount due, the remaining receivable has been fully allowed for.

The Seaport Division recorded accounts receivable amounting to $53,181 at September 30, 2007 from a company in which a former Board member has an interest.

As of September 30, 2008 and 2007, CPA has liabilities of $709,739 and $1,132,424, respectively, to the Northern Mariana Islands Retirement Fund related to the increase in employer contribution rate from 24% to 36.77% inclusive of $242,627 representing 25% penalty on the original outstanding balance.

In accordance with Public Law No. 14-74, the CNMI government contributed $1,290,331 and $707,503 during the years ended September 30, 2008 and 2007, respectively, towards CPA's airline incentive program. In addition, CPA recorded capital contributions of $788,370 and $2,785,493 from the CNMI government during the years ended September 30, 2008 and 2007, respectively. The amount due to the CNMI government relates to the 1% Public Auditor fee of $1,475,196 and $1,352,521 at September 30, 2008 and 2007, respectively.

(11) Commitment and Contingencies

Commitment

CPA's Airport Division leases rental car concession booths, office space, other ground space, and an electronic scanning device. The Seaport Division leases land and warehouse space. Lease terms range from one to fifteen years and in most instances contain provisions for percentage rent. Concession and lease income for the years ended September 30, 2008 and 2007, amounted to $4,476,494 and $4,213,807, respectively. Minimum future lease income is as follows:

Year ending September 30,	Minimum Lease Income Due
2009	$ 2,369,729
2010	1,992,501
2011	1,777,837
2012	1,698,928
2013	1,688,521
2014 - 2018	7,544,752
2019 - 2023	5,816,825
2024 - 2028	2,940,649
2029 - 2033	2,315,164
2034 - 2038	2,746,726
2039 - 2043	3,275,755
2044 - 2048	1,509,987
	$ 35,677,374

(11) Commitment and Contingencies, Continued

Contingencies

CPA incurred a combined loss before capital contributions and transfers from its two divisions of $10,765,017 and $9,632,812 during the years ended September 30, 2008 and 2007, respectively. Management's plans to increase revenues and/or decrease costs are as follows:

a) Continue implementation of cost cutting measures.

b) Explore non-aviation revenue generating options.

c) Explore non-harbor revenue generating options.

d) Implement recommendations from an independent consultant relating to rate structures at the Airport.

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

CPA participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of $508,458 have been set forth in CPA's Single Audit Report for the year ended September 30, 2008. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements. As of and for the year ended September 30, 2008, CPA recorded $1,248,266, related to questioned costs for various Airport Improvement Program grants reported in CPA's audits of fiscal years 2005 through 2007 as an accrued expense liability and other expense as the management of CPA expects to pay the grantor agency for these questioned costs.

On May 19, 2005, CPA received a Unilateral Administrative Order (UAO) issued by the U.S. Environmental Protection Agency (EPA) concerning activities at the maintenance and waste burning facilities at the Saipan International Airport. For the years ended September 30, 2008 and 2007, CPA incurred cleanup expenditures related to the UAO totaling $66,574 and $166,236, respectively. The ultimate cost of the cleanup has not been determined; accordingly, no provision has been accrued at September 30, 2008 for additional costs that may be incurred.

(12) Major Customers

Aviation fees received by CPA are comprised of facility service charges and landing fees from air carriers providing scheduled flight service to CNMI airports, substantially all of which are located in the CNMI, Japan, United States, China and Korea. Seaport fees received by CPA are primarily comprised of wharfage fees on cargo from the CNMI, Japan, United States, the Philippines and other Asian countries. Lease revenue is derived primarily from Saipan International Airport's prime concessionaire who is located in the CNMI.

During the years ended September 30, 2008 and 2007, three customers accounted for 48% and 57% of the total operating revenues of the Airport Division, and one customer accounted for 17% and 18% of the total operating revenues of the Seaport Division during the years ended September 30, 2008 and 2007, respectively.

(13) Typhoon Damages

During the year ended September 30, 2006, CPA received insurance proceeds relating to Typhoon Chaba damages. CPA recorded the proceeds as accrued expenses and expects to liquidate the accrual as typhoon repair costs are incurred. At September 30, 2008 and 2007, the remaining accrued expenses total $1,720,478.

(14) Restatement

During the year ended September 30, 2008, management determined that operations receivable, net, passenger facility charge revenues and beginning net assets were misstated as of and for the year ended September 30, 2007 as follows:

	2007 As Originally Stated	2007 As Restated
Operations receivable, net	$ 4,540,961	$ 4,944,500
Passenger facility charge revenues	$ 1,940,712	$ 1,925,589
Net assets October 1, 2006	$ 131,817,464	$ 132,236,126

COMMONWEALTH PORTS AUTHORITY

Combining Schedule of Net Assets
September 30, 2008

ASSETS	Airport Division	Seaport Division	Elimination	Total
Current assets:				
Cash and cash equivalents	$ 3,509,300	$ 401,639	$ -	$ 3,910,939
Receivables:				
Grantor agencies	1,441,123	81,278	-	1,522,401
Operations, net	3,318,898	411,677	-	3,730,575
Related parties, net	855,878	-	-	855,878
Due from Seaport Division	137,607	-	(137,607)	-
Officers and employees	57,898	3,029	-	60,927
Prepaid expenses	87,373	-	-	87,373
Investments, restricted for construction and debt service purposes	3,752,191	13,370,754	-	17,122,945
Total current assets	13,160,268	14,268,377	(137,607)	27,291,038
Noncurrent assets:				
Deferred bond issue costs	521,631	939,666	-	1,461,297
Receivable from related party, net	3,659,613	-	-	3,659,613
Capital assets, net	140,016,580	50,730,905	-	190,747,485
Total noncurrent assets	144,197,824	51,670,571	-	195,868,395
	$ 157,358,092	$ 65,938,948	$ (137,607)	$ 223,159,433
LIABILITIES AND NET ASSETS				
Current liabilities:				
Revenue bonds payable, current portion	$ 1,435,000	$ 895,000	$ -	$ 2,330,000
Contractors payable	3,211,212	338,461	-	3,549,673
Trade and other payables	269,551	9,106	-	278,657
Due to related parties	1,930,609	254,326	-	2,184,935
Due to Airport Division	-	137,607	(137,607)	-
Accrued expenses	1,474,012	1,799,668	-	3,273,680
Deferred income	5,625	-	-	5,625
Compensated absences, current portion	249,318	26,303	-	275,621
Total current liabilities	8,575,327	3,460,471	(137,607)	11,898,191
Accrued interest payable	-	304,994	-	304,994
Compensated absences, net of current portion	228,426	33,908	-	262,334
Revenue bonds payable, net of current portion	15,375,000	33,464,658	-	48,839,658
Note payable to related party	-	5,803,610	-	5,803,610
Total liabilities	24,178,753	43,067,641	(137,607)	67,108,787
Net assets:				
Invested in capital assets, net of related debt	123,728,211	11,507,303	-	135,235,514
Restricted	3,752,191	13,370,754	-	17,122,945
Unrestricted	5,698,937	(2,006,750)	-	3,692,187
Total net assets	133,179,339	22,871,307	-	156,050,646
	$ 157,358,092	$ 65,938,948	$ (137,607)	$ 223,159,433

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Schedule of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2008

	Airport Division	Seaport Division	Elimination	Total
Operating revenues:				
Concession and lease income	$ 3,399,801	$ 1,076,693	$ -	$ 4,476,494
Aviation fees	4,120,192	-	-	4,120,192
Seaport fees	-	3,532,991	-	3,532,991
Other	1,110,327	559,453	-	1,669,780
	8,630,320	5,169,137	-	13,799,457
Less bad debt	(198,974)	(252,255)	-	(451,229)
Operating revenues, net	8,431,346	4,916,882	-	13,348,228
Operating expenses:				
Depreciation and amortization	7,271,917	2,418,305	-	9,690,222
Salaries and wages	4,207,888	774,360	-	4,982,248
Employee benefits	1,716,586	307,908	-	2,024,494
Insurance	713,683	1,088,827	-	1,802,510
Utilities	797,526	83,934	-	881,460
Contractual services	678,117	81,147	-	759,264
Repairs and maintenance	316,576	33,669	-	350,245
Supplies	220,807	24,093	-	244,900
Professional fees	173,611	52,046	-	225,657
Travel	95,562	23,565	-	119,127
Training	86,457	-	-	86,457
Promotion and advertising	33,948	1,624	-	35,572
Other	1,193,300	82,206	-	1,275,506
Total operating expenses	17,505,978	4,971,684	-	22,477,662
Operating loss	(9,074,632)	(54,802)	-	(9,129,434)
Non-operating revenues (expenses):				
Passenger facility charges	2,160,681	-	-	2,160,681
Interest income	188,101	305,296	-	493,397
Interest expense	(925,378)	(2,049,082)	-	(2,974,460)
Other expense	(1,248,266)	-	-	(1,248,266)
Amortization of bond issue costs	(24,459)	(42,476)	-	(66,935)
Total non-operating revenues (expenses), net	150,679	(1,786,262)	-	(1,635,583)
Loss before capital contributions	(8,923,953)	(1,841,064)	-	(10,765,017)
Capital contributions	11,993,263	532,337	-	12,525,600
Change in net assets	3,069,310	(1,308,727)	-	1,760,583
Net assets at beginning of year	130,110,029	24,180,034	-	154,290,063
Net assets at end of year	$ 133,179,339	$ 22,871,307	$ -	$ 156,050,646

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Schedule of Cash Flows
Year Ended September 30, 2008

	Airport Division	Seaport Division	Elimination	Total
Cash flows from operating activities:				
Cash received from customers	$ 10,007,570	$ 4,770,411	$ -	$ 14,777,981
Cash payments to suppliers for goods and services	(3,387,532)	(1,435,364)		(4,822,896)
Cash payments to employees for services	(6,102,925)	(1,113,665)	-	(7,216,590)
Net cash provided by operating activities	517,113	2,221,382	-	2,738,495
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(16,134,225)	(5,907,297)	-	(22,041,522)
Capital contributions received	13,113,926	1,111,502	-	14,225,428
Passenger facility charge receipts	2,160,681	-	-	2,160,681
Principal paid on revenue bond maturities	(420,000)	(845,000)	-	(1,265,000)
Payments on note payable to related party	-	(223,105)	-	(223,105)
Interest paid on revenue bonds and note payable to related party	(1,065,685)	(2,396,911)	-	(3,462,596)
Net cash used for capital and related financing activities	(2,345,303)	(8,260,811)	-	(10,606,114)
Cash flows from investing activities:				
Net change in restricted investments	(581,008)	2,187,618	-	1,606,610
Interest income	188,101	305,296	-	493,397
Net cash (used for) provided by investing activities	(392,907)	2,492,914	-	2,100,007
Net change in cash and cash equivalents	(2,221,097)	(3,546,515)	-	(5,767,612)
Cash and cash equivalents at beginning of year	5,730,397	3,948,154	-	9,678,551
Cash and cash equivalents at end of year	$ 3,509,300	$ 401,639	$ -	$ 3,910,939
Reconciliation of operating loss to net cash provided by operating activities:				
Operating loss	$ (9,074,632)	$ (54,802)	$ -	$ (9,129,434)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation and amortization	7,271,917	2,418,305	-	9,690,222
Bad debts	198,974	252,255	-	451,229
(Increase) decrease in assets:				
Receivables - operations	1,214,603	(451,907)	-	762,696
Due from Seaport Division	(16,949)	16,949	-	-
Receivables - officers and employees	(5,858)	-	-	(5,858)
Prepaid expenses	9,496	500	-	9,996
Receivables - related parties	185,456	53,181	-	238,637
Increase (decrease) in liabilities:				
Accounts payable - trade and other	56,346	(2,389)	-	53,957
Accounts payable - related parties	(307,507)	(31,768)	-	(339,275)
Accrued expenses	1,163,718	52,455	-	1,216,173
Compensated absences	(178,451)	(31,397)	-	(209,848)
Net cash provided by operating activities	$ 517,113	$ 2,221,382	$ -	$ 2,738,495

See Accompanying Independent Auditors' Report.