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, 2013

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

FINANCIAL STATEMENTS,
ADDITIONAL REPORTING AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Ports Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth Ports Authority as of September 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in note 14, the financial statements have been restated to conform to Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

CPA did not record deficient employer contributions due to the Northern Mariana Islands Retirement Fund at September 30, 2013 as discussed in note 11 to the financial statements.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise CPA's basic financial statements. The Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows as of and for the year ended September 30, 2013 (pages 37 through 39) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Net Position, the Combining Statement of Revenues, Expenses and Changes in Net Position and the Combining Statement of Cash Flows are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2014 on our consideration of CPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CPA's internal control over financial reporting and compliance.

Deloitte & Touche LLC

May 28, 2014

COMMONWEALTH PORTS AUTHORITY

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED SEPTEMBER 30, 2013

This section of the Commonwealth Ports Authority's (herein referred to as "CPA") audit report presents our discussion and analysis of CPA's activities and financial performance during the fiscal year ended September 30, 2013, with selected comparative information for the fiscal years ended September 30, 2012 and 2011. Please read it in conjunction with the more detailed information contained within the accompanying financial statements. The nationally recognized accounting firm of Deloitte & Touche LLC has issued an unqualified audit opinion.

INTRODUCTION

CPA is a component unit of the Government of the Commonwealth of the Northern Mariana Islands (the CNMI) and was established as a public corporation on November 8, 1981 by CNMI Public Law 2-48. A seven-member Board of Directors appointed by the Governor to serve four-year terms governs CPA. CPA is a self-supporting organization and generates revenues from port users to fund operating expenses and debt service requirements.

CPA is tasked with the responsibility to operate, maintain and improve all airports and seaports within the CNMI. Airport and seaport facilities currently exist on the islands of Saipan, Tinian and Rota with 134 employees on Saipan, 22 employees on Rota and 26 employees on Tinian.

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

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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P.O. BOX 561, Rota, MP 96951

TINIAN INTERNATIONAL AIRPORT
Tinian Harbor
P.O. BOX 235, Tinian, MP 96952

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

FINANCIAL HIGHLIGHTS

Total assets and deferred outflows for the airport and seaport operations combined increased by 2% or $5,367,176 from $225,117,701 in FY2012 to $230,484,877 in FY2013 and by 1% or $1,453,755 from $223,663,946 in FY2011 to $225,117,701 in FY2012.

Net position for the airport and seaport operations combined increased by 6% or $9,677,130 from $162,351,188 in FY2012 to $172,028,318 in FY2013 and decreased by less than 1% or $302,083 from $162,653,271 in FY2011 to $162,351,188 in FY2012. Net position represents the amount that total assets exceed total liabilities.

Operating revenues for the airport and seaport operations combined increased by 5% or $977,405 from $18,416,201 in FY2012 to $19,393,606 in FY2013 and by 7% or $1,188,379 from $17,227,822 in FY2011 to $18,416,201 in FY2012. Operating revenues for the Airport Division increased by 9% or $1,057,950 from $12,350,750 in FY2012 to $13,408,700 in FY2013 and by 14% or $1,475,670 from $10,875,080 in FY2011 to $12,350,750 in FY2012. Operating revenues for the Seaport Division decreased by 1% or $80,545 from $6,065,451 in FY2012 to $5,984,906 in FY2013 and by 5% or $287,291 from $6,352,742 in FY2011 to $6,065,451 in FY2012.

Operating expenses (excluding depreciation and amortization) for the airport and seaport operations combined decreased by 13% or $1,749,922 from $13,954,566 in FY2012 to $12,204,644 in FY2013 mainly due to the withdrawal of employees from the Defined Benefit Plan, resulting in a decrease of employer contributions to the Northern Mariana Islands Retirement Fund. Operating expenses increased by 5% or $650,228 from $13,304,338 in FY2011 to $13,954,566 in FY2012, due to an increase in utility charges.

The Airport Division aviation revenue increased by $544,137 in 2013 due to increasing airport traffic at the Francisco C. Ada/Saipan International Airport. The Airport Division was in compliance with its Bond Indenture for FY2013 and expects to be in compliance with the Agreement for FY2014.

The Seaport Division performed a rate study in 2008, which resulted in a tariff increase in March 2009. This was performed due to the departure of the garment industry and the drastic decline in port revenue tons. It was through this effort that revenues increased in order to be in compliance with the Bond Indenture Agreement for 2009 and thereafter. The Seaport Division seaport fees declined in 2013 by $91,113 due to a decrease in inbound revenue tonnage. The Seaport Division was in compliance with its 1998 and 2005 Bond Indenture Agreements (the Agreements) for FY2013. CPA expects the Seaport Division to be in compliance with the Agreement for FY2014.

Combined Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows as of and for the year ended September 30, 2013 follows, with comparative information as of and for the years ended September 30, 2012 and 2011, follows:

Statements of Net Position

	2013	2012 (As Restated)	2011 (As Restated)
Assets and Deferred Outflows			
Current assets:			
Cash	$ 12,464,858	$ 10,329,961	$ 7,415,151
Receivables	3,857,296	6,290,779	5,926,865
Prepaid expenses	304,220	176,294	127,103
Investments, restricted for debt service and other purposes	17,024,045	17,313,055	16,575,666
Total current assets	**33,650,419**	**34,110,089**	**30,044,785**
Capital assets, net	195,997,308	190,131,810	192,704,707
Deferred outflows from cost of refunding debt	837,150	875,802	914,454
Total assets and deferred outflows	**$ 230,484,877**	**$ 225,117,701**	**$ 223,663,946**

Statements of Net Position, Continued

	2013	2012 (As Restated)	2011 (As Restated)
Liabilities and Net Position			
Current liabilities:			
Revenue bonds payable, current portion	$ 1,780,000	$ 1,675,000	$ 1,580,000
Note payable to related party, current portion	251,387	245,925	240,110
Contractors payable	3,786,058	4,993,294	2,895,754
Trade and other payables	188,067	151,901	71,536
Due to related parties	2,394,879	3,348,253	1,838,963
Accrued expenses	2,122,875	2,418,215	2,584,947
Unearned revenues	80,046	30,309	20,926
Compensated absences, current portion	250,247	231,184	250,379
Total current liabilities	**10,853,559**	**13,094,081**	**9,482,615**
Noncurrent liabilities:			
Accrued interest payable	546,679	546,679	546,679
Compensated absences, net of current portion	321,615	366,053	310,352
Revenue bonds payable, net of current portion	41,978,967	43,754,187	45,424,408
Notes payable to related party, net of current portion	4,755,739	5,005,513	5,246,621
Total noncurrent liabilities	**47,603,000**	**49,672,432**	**51,528,060**
Total liabilities	**58,456,559**	**62,766,513**	**61,010,675**
Net position:			
Invested in capital assets, net of related debt	148,068,365	140,326,987	141,128,022
Restricted	17,024,045	17,313,055	16,575,666
Unrestricted	6,935,908	4,711,146	4,949,583
Total net position	**172,028,318**	**162,351,188**	**162,653,271**
	$ 230,484,877	**$ 225,117,701**	**$ 223,663,946**

Statements of Revenues, Expenses and Changes in Net Position

	2013	2012 (As Restated)	2011 (As Restated)
Operating revenues:			
Aviation fees	$ 7,283,629	$ 6,739,492	$ 5,860,195
Concession and lease income	5,899,754	5,336,016	4,739,038
Seaport fees	4,400,748	4,491,861	4,678,482
Other	1,809,475	1,848,832	1,950,107
	19,393,606	18,416,201	17,227,822
Recoveries (bad debts)	84,321	(482,162)	(95,653)
Operating revenues, net	**19,477,927**	**17,934,039**	**17,132,169**
Operating expenses:			
Depreciation and amortization	12,598,802	11,620,279	11,405,674
Salaries and wages	4,977,264	4,914,958	5,162,621
Employee benefits	645,120	1,437,431	1,596,913
Insurance	1,374,827	1,398,887	1,446,929
Contractual services	755,850	917,221	882,194
Utilities	2,023,708	3,234,763	2,143,615
Repairs and maintenance	486,879	412,891	347,154
Supplies	511,679	299,531	222,821
Professional fees	238,048	211,883	286,149
Travel	115,002	90,816	73,313
Training	53,604	115,625	193,640
Promotion and advertising	38,783	27,065	44,081
Other	983,880	893,495	904,908
Total operating expenses	**24,803,446**	**25,574,845**	**24,710,012**
Operating loss	**(5,325,519)**	**(7,640,806)**	**(7,577,843)**

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

	2013	2012 (As Restated)	2011 (As Restated)
Non-operating revenues (expenses):			
Passenger facility charges	2,310,214	1,756,681	1,412,330
Other grant revenue and contributions	475,003	251,908	1,661,491
Interest income	262,938	333,555	454,627
Stand-by costs	-	-	(1,438,724)
Interest expense	(2,788,598)	(3,030,288)	(3,244,589)
Total non-operating revenues (expenses), net	**259,557**	**(688,144)**	**(1,154,865)**
Loss before capital contributions	**(5,065,962)**	**(8,328,950)**	**(8,732,708)**
Capital contributions	14,743,092	8,026,867	8,288,801
Changes in net position	**9,677,130**	**(302,083)**	**(443,907)**
Net position at beginning of year	162,351,188	162,653,271	163,097,178
Net position at end of year	**$ 172,028,318**	**$ 162,351,188**	**$ 162,653,271**

Statements of Cash Flows

	2013	2012	2011
Cash flows from operating activities:			
Cash received from customers	$ 19,007,815	$ 19,475,413	$ 19,230,014
Cash payments to suppliers for goods and services	(7,847,378)	(6,214,156)	(7,937,590)
Cash payments to employees for services	(5,647,759)	(6,315,883)	(6,745,156)
Net cash provided by operating activities	**5,512,678**	**6,945,374**	**4,547,268**
Cash flows from noncapital financing activity:			
Other grant revenues and contributions	475,003	251,908	1,661,491
Net cash provided by noncapital financing activity	**475,003**	**251,908**	**1,661,491**
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(19,456,789)	(6,795,841)	(12,234,650)
Capital and other contributions received	17,621,068	6,116,672	11,997,035
Passenger facility charge receipts	2,310,214	1,756,681	1,412,330
Principal paid on revenue bond maturities	(1,675,000)	(1,580,000)	(1,485,000)
Payments on note payable to related party	(244,312)	(235,293)	(234,309)
Interest paid on revenue bonds and notes payable to related party	(2,959,913)	(3,140,856)	(3,201,157)
Net cash used for capital and related financing activities	**(4,404,732)**	**(3,878,637)**	**(3,745,751)**
Cash flows from investing activities:			
Net investment liquidations (purchases), restricted	289,010	(737,390)	(1,181,017)
Interest income	262,938	333,555	454,627
Net cash provided by (used for) investing activities	**551,948**	**(403,835)**	**(726,390)**
Net change in cash	**2,134,897**	**2,914,810**	**1,736,618**
Cash at beginning of year	10,329,961	7,415,151	5,678,533
Cash at end of year	**$ 12,464,858**	**$ 10,329,961**	**$ 7,415,151**

CAPITAL ASSETS

At September 30, 2013, CPA had $195,997,308 invested in capital assets, net of depreciation where applicable, including land, runways, terminal and harbor facilities and equipment, fire and rescue equipment, general transportation, other machinery and equipment and numerous projects under construction. This represents a net increase of $5,865,498 or 3% from last fiscal year.

CAPITAL ASSETS, CONTINUED

	2013	2012	2011
Runway and improvements	$ 113,856,055	$ 113,833,981	$ 96,125,110
Other improvements	26,598,973	26,567,586	26,559,106
Terminal facilities and equipment	112,104,727	105,272,939	104,541,286
Harbor facilities	63,635,195	63,635,195	63,635,195
Grounds maintenance and shop equipment	388,189	515,532	511,447
Fire and rescue equipment	11,514,281	11,527,325	11,527,325
Office furniture and fixtures	1,178,857	1,212,393	1,098,211
General transportation	1,300,004	1,149,924	1,091,876
Other	2,614,419	2,394,909	2,394,909
	333,190,700	326,109,784	307,484,465
Less accumulated depreciation	(185,167,403)	(173,706,178)	(162,085,899)
Total capital assets being depreciated	148,023,297	152,403,606	145,398,566
Construction in progress	47,509,582	37,263,775	46,841,712
Land	464,429	464,429	464,429
Total capital assets, net	$ 195,997,308	$ 190,131,810	$ 192,704,707

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

RESTRICTED INVESTMENTS

Restricted investments for Airport and Seaport construction and debt service purposes represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds deposited with the Trustee. The balances as of September 30, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Airport			
Bond Reserve Fund	$ 1,586,660	$ 1,583,283	$ 1,575,062
Bond Fund	411,190	390,721	378,165
Maintenance and Operation	1,282,857	2,029,752	1,598,442
Revenue Fund	724	724	724
Optional Redemption Fund	12,100	12,100	12,100
	3,293,531	4,016,580	3,564,493
Seaport			
Bond Reserve Fund	3,479,724	3,479,674	3,479,616
Supplemental Reserve Fund	8,034,239	8,034,239	8,034,239
Reimbursement Fund	5,807	5,807	5,807
Bond Fund	787,681	747,581	712,475
Maintenance and Operation	1,415,074	1,021,185	771,047
Construction Fund	7,178	7,178	7,178
Reserve Fund	811	811	811
	13,730,514	13,296,475	13,011,173
Total	**$ 17,024,045**	**$ 17,313,055**	**$ 16,575,666**

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

LONG-TERM DEBT

1998 Airport Revenue Bonds

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

LONG-TERM DEBT, CONTINUED

1998 Airport Revenue Bonds, Continued

Payments for the Airport bond are current. The current portion of the Airport bond principal is $565,000. The long-term portion of the bond balance as of September 30, 2013 is $12,860,000.

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

1998 Seaport Revenue Bonds

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

Payments for the 1998 Seaport bond are current. The current portion of the 1998 Seaport bond principal is $1,010,000. The long-term portion of the bond balance as of September 30, 2013 is $23,210,000.

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

2005 Seaport Revenue Bonds

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

Payments for the 2005 Seaport bond are current. The current portion of the 2005 Seaport bond principal is $205,000. The long-term portion of the bond balance as of September 30, 2013 is $5,995,000.

Note Payable to the Commonwealth Development Authority (CDA)

As of September 30, 2013, CPA has a promissory note of $5,007,126 due to CDA (a component unit of the CNMI), with interest at 2.5% per annum and a maturity date of June 15, 2030. Principal and interest payments in the amount of $31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling $546,679 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first and, accordingly, is presented as long-term in the accompanying financial statements. The current portion of the note is $251,387. The long-term portion of the note as of September 30, 2013 is $4,755,739. The CDA obligation is subordinate to CPA's obligation for the Seaport bonds.

LONG-TERM DEBT, CONTINUED

A summary of CPA's long-term debt balances as of September 30, 2013, 2012 and 2011 is as follows:

	2013	2012	2011
1998 Senior Series A Bonds - Airport	$ 13,425,000	$ 13,955,000	$ 14,460,000
1998 Senior Series A Bonds - Seaport	$ 24,220,000	$ 25,170,000	$ 26,060,000
2005 Senior Series A Bonds - Seaport	$ 6,200,000	$ 6,395,000	$ 6,580,000
Note payable to CDA	$ 5,007,126	$ 5,251,438	$ 5,486,731

Please refer to notes 7 and 8 to the financial statements for additional information regarding CPA's long-term debt.

REVENUE AND EXPENSE ANALYSIS

Airport and Seaport Combined Operating Revenues

	2013	2012	2011
Airport	$ 13,408,700	$ 12,350,750	$ 10,875,080
Seaport	5,984,906	6,065,451	6,352,742
	$ 19,393,606	$ 18,416,201	$ 17,227,822

The Airport Division experienced an increase of revenues in FY2013 compared to FY2012. The Seaport Division has been experiencing a declining revenue trend in recent years due to the reduction of the revenue generating base. With the departure of the garment industry, the Seaport gross revenue tons have declined causing a permanent loss of this important revenue base. For the Airport, revenue has risen due to an increase in passenger enplanement and deplanement activities at the Francisco C. Ada/Saipan International Airport.

The CPA Board of Directors increased fees for the Airport in June 2008 and the tariff for the Seaport in March 2009. This had a major impact in stabilizing each Division's revenues for 2013 and allowing for future revenue growth. This has allowed the Seaports to achieve compliance with reasonable excess to mitigate unanticipated, but necessary, costs.

Airport and Seaport Combined Operating Expenses
(Excluding Depreciation and Amortization)

	2013	2012	2011
Airport			
Personnel expense	$ 4,896,695	$ 5,504,051	$ 5,850,938
Maintenance and operations expense	5,139,801	6,257,045	5,314,854
	10,036,496	11,761,096	11,165,792
Seaport			
Personnel expense	725,689	848,338	908,596
Maintenance and operations expense	1,442,459	1,345,132	1,229,950
	2,168,148	2,193,470	2,138,546
Combined operating expenses	**$ 12,204,644**	**$ 13,954,566**	**$ 13,304,338**

FY2012 BOND INDENTURE COMPLIANCE

FY2013 Bond/Debt Ratio Noncompliance

	Airport			Seaport		
	2013	**2012**	**2011**	**2013**	**2012**	**2011**
Required revenues for bond compliance	$ 11,822,759	$ 13,984,469	$ 12,939,819	$ 5,931,135	$ 6,096,471	$ 6,050,286
Actual revenues collected:						
Revenues and other income	13,408,700	12,350,750	10,875,080	5,984,906	6,065,451	6,352,742
Other grant revenue and contributions	252,585	251,908	252,309	222,418	-	-
Interest income	18,637	57,699	191,721	244,301	275,856	262,906
Passenger facility charge	2,310,214	1,756,681	1,412,330	-	-	-
	15,990,136	14,417,038	12,731,440	6,451,625	6,341,307	6,615,648
Variance (noncompliance)	$ 4,167,377	$ 432,569	$ (208,379)	$ 520,490	$ 244,836	$ 565,362

As illustrated in the above table, for FY2013 and FY2012, CPA was able to generate sufficient revenues for the Airport to meet its Bond Indenture requirements primarily due to the FAA opinion allowing passenger facility charges to be considered revenues for this purpose. For the Airport Division in FY2011, CPA was not able to meet its Bond Indenture due to a restatement. The restatement was due to disputed utility charges. After a reconciliation of accounts, it was determined that the related party receivables account was overstated and the utility expense account was understated. The Seaport Division was able to meet its bond compliance due to the rate increase. As stated previously, revenues and expenses are being monitored on a quarterly basis so that steps can be taken to ensure compliance. The results from this activity are being used to construct a realistic budget for FY2014. It is management's intention to control expenses in a comprehensive manner to ensure there is a proper relationship to operating revenues.

REVENUE-BASED STATISTICS

AIRPORT DIVISION

	Enplaned Passengers	Deplaned Passengers	Landing Weights
Saipan			
FY 2011	404,652	388,030	685,246,274
FY 2012	513,472	472,920	777,238,017
FY 2013	514,187	487,852	852,608,730
Rota			
FY 2011	15,528	16,031	40,123,200
FY 2012	8,714	11,361	28,774,820
FY 2013	8,939	8,963	20,628,200
Tinian			
FY 2011	35,225	18,351	58,219,400
FY 2012	50,249	14,719	90,494,500
FY 2013	29,072	7,106	84,779,380
All Airports			
FY 2011	455,405	422,412	783,588,874
FY 2012	572,435	499,000	896,507,337
FY 2013	552,198	503,921	958,016,310

In FY2013, consolidated airport enplanement (air passenger departures) decreased by 4% and consolidated deplanement (air passenger arrivals) increased by 1% from FY2012. The decrease in enplanements for FY 2013 is due to a major decrease in passenger traffic in Rota and Tinian.

REVENUE-BASED STATISTICS, CONTINUED

SEAPORT DIVISION

	Revenue Tons		
	Inbound	**Outbound**	**Total**
Saipan			
FY 2011	340,472	13,901	354,373
FY 2012	370,161	12,087	382,248
FY 2013	322,840	13,492	336,332
Rota			
FY 2011	7,490	1,487	8,977
FY 2012	5,240	1,069	6,309
FY 2013	4,051	3,805	7,856
Tinian			
FY 2011	14,220	1,237	15,457
FY 2012	19,669	1,088	20,757
FY 2013	14,811	993	15,804
All Seaports			
FY 2011	362,182	16,625	378,807
FY 2012	395,070	14,244	409,314
FY 2013	341,702	18,290	359,992

In FY2013, seaport inbound cargo decreased by 14% and outbound cargo increased by 28% for the three seaports combined from FY2012.

ECONOMIC OUTLOOK

The CPA 2014 combined revenue forecast indicates a substantial increase of $300,000 or about 2% from FY 2013. The Airport aviation traffic for 2014 is forecasted to increase substantially due to new airlines serving the CNMI. The Seaport gross revenue tons for 2014 is forecasted to be slightly less than the FY2013 level. Overall, Seaport revenues are projected to be about 5% less than the amounts in FY2013. Management will continue to closely monitor the Airport and Seaport operating expenses in order to maintain a level to comply with respective Bond Indentures.

Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in CPA's report on the audit of financial statements, which is dated November 20, 2013. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be viewed at the Office of the Public Auditor's website at www.opacnmi.com.

CONTACTING CPA'S FINANCIAL MANAGEMENT

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

COMMONWEALTH PORTS AUTHORITY
Statements of Net Position

September 30, 2013 and 2012

ASSETS AND DEFERRED OUTFLOWS	2013	2012 (As Restated)
Current assets:		
Cash	$ 12,464,858	$ 10,329,961
Receivables:		
Grantor agencies	435,900	3,313,876
Operations, net	2,963,504	2,609,930
Related party, net	445,912	358,004
Officers and employees	11,980	8,969
Prepaid expenses	304,220	176,294
Investments, restricted for debt service and other purposes	17,024,045	17,313,055
Total current assets	33,650,419	34,110,089
Capital assets, net	195,997,308	190,131,810
Deferred outflows from cost of refunding debt	837,150	875,802
Total assets and deferred outflows	$ 230,484,877	$ 225,117,701
LIABILITIES AND NET POSITION		
Current liabilities:		
Revenue bonds payable, current portion	$ 1,780,000	$ 1,675,000
Note payable to related party, current portion	251,387	245,925
Contractors payable	3,786,058	4,993,294
Trade and other payables	188,067	151,901
Due to related parties	2,394,879	3,348,253
Accrued expenses	2,122,875	2,418,215
Unearned revenues	80,046	30,309
Compensated absences, current portion	250,247	231,184
Total current liabilities	10,853,559	13,094,081
Noncurrent liabilities:		
Accrued interest payable	546,679	546,679
Compensated absences, net of current portion	321,615	366,053
Revenue bonds payable, net of current portion	41,978,967	43,754,187
Note payable to related party, net of current portion	4,755,739	5,005,513
Total noncurrent liabilities	47,603,000	49,672,432
Total liabilities	58,456,559	62,766,513
Commitment and contingencies		
Net position:		
Invested in capital assets, net of related debt	148,068,365	140,326,987
Restricted	17,024,045	17,313,055
Unrestricted	6,935,908	4,711,146
Total net position	172,028,318	162,351,188
	$ 230,484,877	$ 225,117,701

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012 (As Restated)
Operating revenues:		
Aviation fees	$ 7,283,629	$ 6,739,492
Concession and lease income	5,899,754	5,336,016
Seaport fees	4,400,748	4,491,861
Other	1,809,475	1,848,832
	19,393,606	18,416,201
Recoveries (bad debts)	84,321	(482,162)
Operating revenues, net	19,477,927	17,934,039
Operating expenses:		
Depreciation and amortization	12,598,802	11,620,279
Salaries and wages	4,977,264	4,914,958
Utilities	2,023,708	3,234,763
Insurance	1,374,827	1,398,887
Contractual services	755,850	917,221
Employee benefits	645,120	1,437,431
Supplies	511,679	299,531
Repairs and maintenance	486,879	412,891
Professional fees	238,048	211,883
Travel	115,002	90,816
Training	53,604	115,625
Promotion and advertising	38,783	27,065
Other	983,880	893,495
Total operating expenses	24,803,446	25,574,845
Operating loss	(5,325,519)	(7,640,806)
Non-operating revenues (expenses):		
Passenger facility charges	2,310,214	1,756,681
Other grant revenues and contributions	475,003	251,908
Interest income	262,938	333,555
Interest expense	(2,788,598)	(3,030,288)
Total non-operating revenues (expenses), net	259,557	(688,144)
Loss before capital contributions	(5,065,962)	(8,328,950)
Capital contributions	14,743,092	8,026,867
Change in net position	9,677,130	(302,083)
Net position at beginning of year, as restated	162,351,188	162,653,271
Net position at end of year	$ 172,028,318	$ 162,351,188

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 19,007,815	$ 19,475,413
Cash payments to suppliers for goods and services	(7,847,378)	(6,214,156)
Cash payments to employees for services	(5,647,759)	(6,315,883)
Net cash provided by operating activities	5,512,678	6,945,374
Cash flows from noncapital financing activity:		
Other grant revenues and contributions	475,003	251,908
Net cash provided by noncapital financing activity	475,003	251,908
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(19,456,789)	(6,795,841)
Capital and other contributions received	17,621,068	6,116,672
Passenger facility charge receipts	2,310,214	1,756,681
Principal paid on revenue bond maturities	(1,675,000)	(1,580,000)
Payments on note payable to related party	(244,312)	(235,293)
Interest paid on revenue bonds and note payable to related party	(2,959,913)	(3,140,856)
Net cash used for capital and related financing activities	(4,404,732)	(3,878,637)
Cash flows from investing activities:		
Net investment liquidations (purchases), restricted	289,010	(737,390)
Interest income	262,938	333,555
Net cash provided by (used for) investing activities	551,948	(403,835)
Net change in cash	2,134,897	2,914,810
Cash at beginning of year	10,329,961	7,415,151
Cash at end of year	$ 12,464,858	$ 10,329,961
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (5,325,519)	$ (7,640,806)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	12,598,802	11,620,279
(Recoveries) bad debts	(84,321)	482,162
(Increase) decrease in assets:		
Receivables - operations	(269,253)	(525,729)
Receivables - officers and employees	(3,011)	(3,075)
Prepaid expenses	(127,926)	(49,191)
Receivables - related parties	(87,908)	1,592,922
Increase (decrease) in liabilities:		
Accounts payable - trade and other	36,166	80,365
Accounts payable - related parties	(953,374)	1,509,290
Accrued expenses	(295,340)	(166,732)
Deferred income	49,737	9,383
Compensated absences	(25,375)	36,506
Net cash provided by operating activities	$ 5,512,678	$ 6,945,374

See accompanying notes to financial statements.

(1) Organization

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

(2) Summary of Significant Accounting Policies

The accounting policies of CPA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. CPA utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

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

Budgets

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

Concentrations of Credit Risk

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

At September 30, 2013 and 2012, 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, 2013 and 2012, concentrations of credit risk result from receivables from significant customers and receivable from a related party which represent 40% and 29%, respectively, of total receivables. Management assesses the risk of loss and provides an allowance for doubtful accounts to compensate for known credit risk.

(2) Summary of Significant Accounting Policies, Continued

Cash

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

Capitalization of Interest

CPA capitalizes interest in order to recognize all costs associated with the non-contributed airport and seaport construction projects based on CPA's weighted average borrowing rate. Eligible interest expense of $214,747 and $153,999 was capitalized during the years ended September 30, 2013 and 2012, respectively. No interest is capitalized for projects financed with grant proceeds or Passenger Facility Charges.

Investments

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

Allowance for Doubtful Accounts

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

Capital Assets

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

Bond Discounts and Issuance Costs

Bond discounts are deferred and amortized over the term of the related bond using the straight-line method. Bonds payable are reported net of bond discounts. Bond issuance costs are expensed in the period incurred (see note 14).

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 position.

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

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

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

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

Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund (NMIRF) Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2, 16-36, 17-79 and 17-82.

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarial contribution rate for fiscal years ended September 30, 2013 and 2012 have yet to be determined. The actuarially determined contribution rate for the fiscal year ended September 30, 2010 is 72.7215% of covered payroll based on an actuarial valuation as of October 1, 2010 issued in October 2012. The established statutory rate at September 30, 2013 and 2012 is 72.7215% and 60.8686%, respectively, of covered payroll. CPA recorded DB contributions to the Fund for the years ended September 30, 2013 and 2012 of $69,371 and $1,193,505, respectively, based on a court approved rate of 30% as discussed in note 11. CPA recorded DB contributions to the Fund for the year ended September 30, 2011 of $1,397,274 equal to the required statutory contributions for that year.

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan (DB Plan), Continued

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. Authorization of participation has not been obtained from the U.S. Government. On September 11, 2012, Public Law 17-82 *CNMI Pension Reform Recovery Act of 2012* was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect to, to buy quarters of service in the U.S. Social Security system from contributions made to the DB plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

For the year ended September 30, 2013, CPA contributed social security benefits of $406,670. In addition, all but four active employees voluntarily terminated membership in the DB Plan.

On August 7, 2013, the United States District Court for the Northern Mariana Islands issued an order for the preliminary approval of Civil Case No. 09-00023, Class Action Settlement (Settlement), between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, NMIRF and others. The Settlement includes the creation of a Settlement Fund to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court.

As part of the Settlement, the CNMI agrees to make minimum annual payments to the Settlement Fund to allow for the payment of 75% of Class Members' full benefits annually during the Settlement Fund's expected life and as determined by an independent actuary appointed by the Trustee and approved by the District Court. In addition, the Settlement authorizes NMIRF to distribute employee contributions (exclusive of interest) of $10,000,000 to former members of the DB Plan who elected to terminate their membership in accordance with Public Law 17-82 with the remainder to be distributed upon final approval of the Settlement agreement. On September 30, 2013, the United States District Court for the Northern Mariana Islands approved the Settlement agreement.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. CPA is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. CPA's recorded DC contributions for the years ended September 30, 2013, 2012 and 2011 were $65,032, $66,275 and $57,063, respectively, equal to the required contributions for each year.

(2) Summary of Significant Accounting Policies, Continued

Defined Contribution Plan (DC Plan), Continued

Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Net Position

CPA's net position is classified as follows:

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

- Restricted:

  - Nonexpendable - Net position subject to externally imposed stipulations that CPA maintain them permanently. For the years ended September 30, 2013 and 2012, CPA does not have nonexpendable restricted net position.

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

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

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated vacation leave liability as of September 30, 2013 and 2012 is $571,862 and $597,237, respectively.

Operating and Non-Operating Revenues and Expenses

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

New Accounting Standards

During the year ended September 30, 2013, CPA implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements, which* addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, which* improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity, and No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superceded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of CPA.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans, which* revises existing guidance for the financial reports of most pension plans, *and Statement N*o. 68, *Accounting and Financial Reporting for Pensions, which* revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of CPA.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of CPA.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements 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.

Reclassifications

Certain 2012 balances in the accompanying financial statements have been reclassified to conform to the 2013 presentation.

(3) Deposits and Investments

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

(3) Deposits and Investments, Continued

Deposits

As of September 30, 2013 and 2012, total cash was $12,464,858 and $10,329,961, respectively, and the corresponding bank balances were $12,625,529 and $10,497,864, respectively. All bank balances are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. CNMI law does not require component unit funds to be collateralized and thus CPA's funds, in excess of FDIC insurance, are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments

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

	2013	2012
Airport Division		
Bond Reserve Fund	$ 1,586,660	$ 1,583,283
Bond Fund	411,190	390,721
Maintenance and Operation	1,282,857	2,029,752
Revenue Fund	724	724
Optional Redemption Fund	12,100	12,100
	3,293,531	4,016,580
Seaport Division		
Bond Reserve Fund	3,479,724	3,479,674
Supplemental Reserve Fund	8,034,239	8,034,239
Reimbursement Fund	5,807	5,807
Bond Fund	787,681	747,581
Maintenance and Operation	1,415,074	1,021,185
Construction Fund	7,178	7,178
Revenue Fund	811	811
	13,730,514	13,296,475
	$ 17,024,045	$ 17,313,055

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

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

(3) Deposits and Investments, Continued

Investments, Continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for CPA. As of September 30, 2013 and 2012, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2013 and 2012, investments at fair value consist of investments in U.S. Government money market placements and mutual funds.

(4) Receivables From Federal Grantor Agencies

Receivables from federal grantor agencies as of September 30, 2013 and 2012, are as follows:

	2013	2012
U.S. Department of Transportation	$ 324,994	$ 3,192,740
U.S. Department of Homeland Security	83,686	71,453
U.S. Department of the Interior - passed through from the CNMI Government	-	2,487
Other	27,220	47,196
	$ 435,900	$ 3,313,876

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. Capital contributions amounting to $14,743,092 and $8,026,867 and operating grants amounting to $475,003 and $251,908 were received from grantor agencies during the years ended September 30, 2013 and 2012, respectively.

(5) Accounts Receivable from Operations

CPA extends credit to organizations and individuals, substantially all of whom are located in the CNMI, Japan, the United States, China and Korea. CPA's accounts receivable from operations as of September 30, 2013 and 2012, are as follows:

	2013	2012
Accounts receivable	$ 4,651,598	$ 4,481,567
Less allowance for doubtful accounts	(1,688,094)	(1,871,637)
	$ 2,963,504	$ 2,609,930

(6) Capital Assets

Capital asset balances consist of the following as of September 30, 2013 and 2012:

	Estimated Useful Lives	Balance October 1, 2012	Increases	Decreases	Balance September 30, 2013
Assets not being depreciated:					
Construction in progress		$ 37,263,775	$ 17,531,016	$ (7,285,209)	$ 47,509,582
Land		464,429	-	-	464,429
Total capital assets not being depreciated		37,728,204	17,531,016	(7,285,209)	47,974,011
Capital assets being depreciated:					
Runway and improvements	20 years	113,833,981	22,074	-	113,856,055
Other improvements	3 - 10 years	26,567,586	31,387	-	26,598,973
Terminal facilities	20 years	94,509,828	7,297,396	(4,285)	101,802,939
Terminal equipment	2 - 10 years	10,763,111	122,707	(584,030)	10,301,788
Harbor facilities	20 years	63,635,195	-	-	63,635,195
Grounds maintenance and shop equipment	2 - 5 years	515,532	-	(127,343)	388,189
Fire and rescue equipment	2 - 8 years	11,527,325	-	(13,044)	11,514,281
Office furniture and fixtures	2 - 10 years	1,212,393	182,068	(215,604)	1,178,857
General transportation	3 - 5 years	1,149,924	313,656	(163,576)	1,300,004
Other	3 - 5 years	2,394,909	254,400	(34,890)	2,614,419
		326,109,784	8,223,688	(1,142,772)	333,190,700
Less accumulated depreciation		(173,706,178)	(12,598,802)	1,137,577	(185,167,403)
Total capital assets being depreciated		152,403,606	(4,375,114)	(5,195)	148,023,297
Total capital assets, net		$ 190,131,810	$ 13,155,902	$ (7,290,404)	$ 195,997,308

	Estimated Useful Lives	Balance October 1, 2011	Increases	Decreases	Balance September 30, 2012
Assets not being depreciated:					
Construction in progress		$ 46,841,712	$ 8,897,047	$ (18,474,984)	$ 37,263,775
Land		464,429	-	-	464,429
Total capital assets not being depreciated		47,306,141	8,897,047	(18,474,984)	37,728,204
Capital assets being depreciated:					
Runway and improvements	20 years	96,125,110	17,708,871	-	113,833,981
Other improvements	3 - 10 years	26,559,106	8,480	-	26,567,586
Terminal facilities	20 years	93,784,809	725,019	-	94,509,828
Terminal equipment	2 - 10 years	10,756,477	6,634	-	10,763,111
Harbor facilities	20 years	63,635,195	-	-	63,635,195
Grounds maintenance and shop equipment	2 - 5 years	511,447	4,085	-	515,532
Fire and rescue equipment	2 - 8 years	11,527,325	-	-	11,527,325
Office furniture and fixtures	2 - 10 years	1,098,211	114,182	-	1,212,393
General transportation	3 - 5 years	1,091,876	58,048	-	1,149,924
Other	3 - 5 years	2,394,909	-	-	2,394,909
		307,484,465	18,625,319	-	326,109,784
Less accumulated depreciation		(162,085,899)	(11,620,279)	-	(173,706,178)
Total capital assets being depreciated		145,398,566	7,005,040	-	152,403,606
Total capital assets, net		$ 192,704,707	$ 15,902,087	$ (18,474,984)	$ 190,131,810

(6) Capital Assets, Continued

CPA leases significant portions of airport terminal facilities and certain grounds and improvements to concessionaires, airlines, and other lessees. CPA additionally holds title to 13,646,163 square meters of land on the islands of Saipan, Tinian and Rota for seaport and airport operations.

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

(7) Revenue Bonds Payable

Airport Division

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

Revenue bonds payable as of September 30, 2013 and 2012, consist of the following:

	2013	2012
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2013 and 2028 are listed below.	$ 13,425,000	$ 13,955,000
Less current portion	565,000	530,000
Long-term portion	$ 12,860,000	$ 13,425,000

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

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

(7) Revenue Bonds Payable, Continued

Airport Division, Continued

Year ending September 30,	Principal	Interest	Total
2014	$ 565,000	$ 821,406	$ 1,386,406
2015	600,000	785,000	1,385,000
2016	640,000	746,250	1,386,250
2017	675,000	705,156	1,380,156
2018	730,000	661,250	1,391,250
2019 - 2023	4,335,000	2,547,970	6,882,970
2024 - 2028	5,880,000	963,750	6,843,750
	$ 13,425,000	$ 7,230,782	$ 20,655,782

Seaport Division

On March 26, 1998, CPA issued $33,775,000 of Senior Series A tax-exempt seaport revenue bonds which in part were used for a current refunding of $22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $1,345,593. This amount is recorded as a deferred outflow from cost of refunding debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. At September 30, 2013 and 2012, deferred outflow from cost of refunding debt amounted to $837,150 and $875,802, respectively. The transaction also resulted in an economic gain of $1,724,777 and a decrease of $6,983,345 in future debt service payments. Interest on the bonds is payable semi-annually at 6.6% on March 15 and September 15 of each year.

On September 21, 2005, CPA issued $7,225,000 of Senior Series A tax-exempt seaport revenue bonds for the purpose of financing (including reimbursing itself for) the purchase, acquisition, construction, reconstruction, repair, renovation, improvement or expansion of CPA's seaports. Pursuant to Section 2.04(A)(9) of the 1998 Senior Series A Seaport Revenue Bonds Indenture Agreement dated March 1, 1998 and as supplemented by a First Supplemental Indenture dated March 1, 2000, CPA entered into a Second Supplemental Indenture for the issuance of the 2005 Senior Series A bonds. Interest on the bonds is payable semi-annually at 5.5% on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2013 and 2012, consist of the following:

	2013	2012
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2014 and 2028 are listed below.	$ 24,220,000	$ 25,170,000
Special Revenue Bonds, tax exempt, 2005 Senior Series A: interest and annual installments payable to the Bond Trustee between 2014 and 2031 are listed below.	6,200,000	6,395,000

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

	2013	2012
Discount on 2005 Senior Series A bonds	(86,033)	(90,813)
	30,333,967	31,474,187
Less current portion	1,215,000	1,145,000
Long-term portion	$ 29,118,967	$ 30,329,187

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
2014	$ 1,215,000	$ 1,900,552	$ 3,115,552
2015	1,295,000	1,820,060	3,115,060
2016	1,370,000	1,734,590	3,104,590
2017	1,460,000	1,643,812	3,103,812
2018	1,555,000	1,547,095	3,102,095
2019 - 2023	9,355,000	6,057,701	15,412,701
2024 - 2028	12,670,000	2,547,051	15,217,051
2029 - 2031	1,500,000	126,499	1,626,499
	$ 30,420,000	$ 17,377,360	$ 47,797,360

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, 2013 and 2012, total deposits in the Seaport supplemental reserve fund amounted to $8,034,239.

Bond Redemption

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

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

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

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

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

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

b) Mandatory redemption - The 1998 Senior Bonds for the airport and seaport are subject to mandatory redemption, in part on the earliest Interest Payment Date for which notice can be given after completion of the Project or after three years from the date of issuance of the 1998 Senior Bonds, from moneys transferred from the 1998 Series A Account within the Construction Fund to the Optional Redemption Fund in accordance with Section 3.03, at a redemption price equal to 100% of the principal amount of such 1998 Senior Bonds to be redeemed plus accrued interest, if any, to the date fixed for redemption, without premium.

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

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

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

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

(7) Revenue Bonds Payable, Continued

Bond Redemption, Continued

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

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

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

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

Pledge of Future Revenues

CPA has pledged future gross revenues to repay $20,050,000 and $33,775,000 in 1998 Senior Series A and $7,225,000 of 2005 Senior Series A tax-exempt special revenue bonds. Proceeds from the bonds provided financing for capital assets. The bonds are payable from pledged gross revenues. The bonds are payable through fiscal years 2028, 2028 and 2031, respectively. The total principal and interest payable for the remainder of the life of these bonds are $68,453,142 and $72,959,999 at September 30, 2013 and 2012, respectively. Pledged gross revenues received during the years ended September 30, 2013 and 2012 were $19,393,606 and $18,416,201, respectively. Debt service payments during the years ended September 30, 2013 and 2012 amounted to $4,506,857 and $4,515,371 representing 23% and 25%, respectively, of pledged gross revenues.

(7) Revenue Bonds Payable, Continued

The bond indentures contain several restrictive covenants, including restrictions on the use of bond proceeds. Management of CPA is of the opinion that CPA was in compliance with all significant covenants as of September 30, 2013. Section 6.11 of the Airport and Seaport Bond Indenture Agreements (Indenture) states that CPA shall impose, levy, enforce and collect such dockage, entry and wharfage fees, tariffs, lease rentals, licensing fees and other fees and charges in an aggregate amount with respect to each fiscal year to produce gross revenues of 125% of debt service requirements.

Management of CPA has determined that gross revenues consist of total operating revenues, other grant revenue and contributions, interest income and passenger facility charges to meet the indenture requirements. For fiscal years 2013 and 2012, management of CPA determined that 100% of passenger facility charges are considered as gross revenues for these purposes.

The Commonwealth Development Authority subordinated CPA's obligations under the 1992 Loan Agreement, to CPA's obligation on the Seaport bonds. Accordingly, principal and interest payments due during the fiscal year were excluded in the calculation of debt coverage ratio. Except as described in note 7 to the accompanying financial statements, management of CPA has determined that Sections (A)(2) and (A)(3) of the Indenture apply to subsequent bond issuances and therefore does not apply at September 30, 2013 and 2012.

Changes in long-term liabilities for the years ended September 30, 2013 and 2012, are as follows:

	Balance October 1, 2012 (As Restated)	Additions	Reductions	Balance September 30, 2013	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	$ 13,955,000	$ -	$ (530,000)	$ 13,425,000	$ 565,000
Seaport 1998 Senior Series A	25,170,000	-	(950,000)	24,220,000	1,010,000
Seaport 2005 Senior Series A	6,395,000	-	(195,000)	6,200,000	205,000
Note payable	5,251,438	-	(244,312)	5,007,126	251,387
Deferred amounts:					
Discount on bonds	(90,813)	-	4,780	(86,033)	-
	50,680,625	-	(1,914,532)	48,766,093	2,031,387
Other:					
Compensated absences	597,237	420,542	(445,917)	571,862	250,247
Accrued interest	546,679	116,628	(116,628)	546,679	-
	$ 51,824,541	$ 537,170	$ (2,477,077)	$ 49,884,634	$ 2,281,634

	Balance October 1, 2011 (As Restated)	Additions	Reductions	Balance September 30, 2012 (As Restated)	Due Within One Year
Bonds payable:					
Airport 1998 Senior Series A	$ 14,460,000	$ -	$ (505,000)	$ 13,955,000	$ 530,000
Seaport 1998 Senior Series A	26,060,000	-	(890,000)	25,170,000	950,000
Seaport 2005 Senior Series A	6,580,000	-	(185,000)	6,395,000	195,000
Note payable	5,486,731	-	(235,293)	5,251,438	245,925
Deferred amounts:					
Discount on bonds	(95,592)	-	4,779	(90,813)	-
	52,491,139	-	(1,810,514)	50,680,625	1,920,925
Other:					
Compensated absences	560,731	415,303	(378,797)	597,237	231,184
Accrued interest	546,679	116,628	(116,628)	546,679	-
	$ 53,598,549	$ 531,931	$ (2,305,939)	$ 51,824,541	$ 2,152,109

(8) Note Payable to Related Party

CPA's note payable is as follows:

	2013	2012
Promissory note due to the Commonwealth Development Authority (CDA) (a component unit of the CNMI), interest at 2.5% per annum, with maturity date of June 15, 2030. Principal and interest payments in the amount of $31,000 are due monthly beginning June 15, 2010. The payment of accrued interest totaling $546,679 has been deferred until the maturity of the loan or until the loan is paid off, whichever comes first and, accordingly, is presented as long-term in the accompanying financial statements.	$ 5,007,126	$ 5,251,438
Less current portion	251,387	245,925
Long-term portion	$ 4,755,739	$ 5,005,513

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
2014	$ 251,387	$ 122,226	$ 373,613
2015	256,090	115,910	372,000
2016	262,566	109,433	371,999
2017	269,206	102,794	372,000
2018	276,014	95,986	372,000
2019 - 2023	1,488,368	371,632	1,860,000
2024 - 2028	1,686,323	173,677	1,860,000
2029 - 2031	517,172	556,127	1,073,299
	$ 5,007,126	$ 1,647,785	$ 6,654,911

(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. Settled claims have not exceeded this commercial insurance coverage during the past three years.

(10) Related Party Transactions

Total related party transactions for the years ended September 30, 2013 and 2012, and the related receivable and payable balances, are as follows:

(10) Related Party Transactions, Continued

	2013			
	Revenues and Capital Contributions	Expenses	Receivables	Payables
Commonwealth Utilities Corporation	$ 211,571	$ 2,023,708	$ 445,912	$ 321,287
CNMI Government	187,555	119,148	-	2,073,592
Commonwealth Development Authority	-	128,056	-	-
Northern Mariana Islands Retirement Fund	-	69,371	-	-
	$ 399,126	$ 2,340,283	$ 445,912	$ 2,394,879

	2012			
	Revenues and Capital Contributions	Expenses	Receivables	Payables
Commonwealth Utilities Corporation	$ 247,037	$ 3,234,763	$ 358,004	$ 1,393,810
CNMI Government	18,013	115,481	-	1,954,443
Commonwealth Development Authority	-	136,707	-	-
Northern Mariana Islands Retirement Fund	-	1,193,505	-	-
	$ 265,050	$ 4,680,456	$ 358,004	$ 3,348,253

A note payable to CDA amounted to $5,007,126 and $5,251,438 at September 30, 2013 and 2012, respectively. Interest expense on this note for the years ended September 30, 2013 and 2012 amounted to $128,056 and $136,707, respectively.

CPA and the Commonwealth Utilities Corporation (CUC) have entered into Memorandums of Agreement (MOAs) specifying terms and conditions of the construction of a Sewerline Project. CPA, as signatory party to the project contract, made all payments on the project. CUC has agreed to reimburse CPA $4,700,947 of project costs. In accordance with the MOAs, CUC shall make installments payments over a term not to exceed five years, commencing on July 1, 2008, with interest at 6.25%. CPA has the right of offset/credit utility charges in lieu of payments. The offset/credit procedure shall terminate when CUC begins actual payments on the amount owed or total offset/credits equal the principal amount. During the year ended September 30, 2012, the receivable from CUC was settled. Total utility charges offset during the years ended September 30, 2013 and 2012 amounted to $-0- and $3,075,369, respectively.

On June 30, 2008, CPA and CUC entered into an amended and superseding MOA for the repayment of wharfage fees due to CPA amounting to $3,385,131 with interest at 6.25%. In accordance with the MOA, CPA has the right to offset utility charges at the Port of Saipan and other ancillary accounts against the receivable from CUC beginning July 1, 2008. Total utility charges offset during the years ended September 30, 2013 and 2012 amounted to $123,663 and $122,933, respectively. Due to the potential uncollectability of the remaining amount due, the remaining receivable has been fully allowed for. At September 30, 2013 and 2012, interest receivable from CUC amounted to $445,912 and $358,004, respectively.

(10) Related Party Transactions, Continued

CPA recorded contributions of $187,555 and $18,013 from the CNMI government during the years ended September 30, 2013 and 2012, respectively. The amount due to the CNMI government relates to the 1% Public Auditor fee of $2,073,592 and $1,954,443 at September 30, 2013 and 2012, respectively.

A receivable from a relative of the former Executive Director amounted to $-0- and $33,000 at September 30, 2013 and 2012, respectively.

(11) Commitment and Contingencies

Commitment

CPA's Airport Division leases rental car concession booths, office space, other ground space, and an electronic scanning device. The Seaport Division leases land and warehouse space. Lease terms range from one to forty-eight years and in most instances contain provisions for percentage rent. Concession and lease income for the years ended September 30, 2013 and 2012, amounted to $5,899,754 and $5,336,016, respectively. Minimum future lease income is as follows:

Year ending September 30,	Minimum Lease Income Due
2014	$ 2,117,649
2015	1,905,978
2016	1,513,429
2017	1,493,202
2018	1,406,992
2019 - 2023	6,111,664
2024 - 2028	1,597,365
2029 - 2033	154,641
2034 - 2037	65,097
	$ 16,366,017

Contingencies

CPA incurred a combined loss before capital contributions from its two divisions of $5,065,962 and $8,328,950 during the years ended September 30, 2013 and 2012, respectively. Management's plans to increase revenues and/or decrease costs are as follows:

a) Continue implementation of cost cutting measures.

b) Explore non-aviation revenue generating options.

c) Explore non-harbor revenue generating options.

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

(11) Commitment and Contingencies, Continued

Contingencies, Continued

CPA participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of $15,206 have been set forth in CPA's Single Audit Report for the year ended September 30, 2013. 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 discussed in note 2, the established statutory employer contribution rate for the DB Plan is 72.7215% and 60.8686% of covered payroll for the years ended September 30, 2013 and 2012, respectively, and is required to be remitted to the Fund. In April 2012, a court order was issued by the CNMI Superior Court authorizing autonomous agencies to remit employer contributions of 30% of covered payroll to the Fund. Accordingly, deficient employer contributions of $1,048,784 and $963,126, inclusive of penalties totaling $187,997 and $172,645, due to the Fund are not reflected in the accompanying financial statements at September 30, 2013 and 2012, respectively. CPA has taken the position that 30% is the correct rate and will challenge the matter in court if required to pay the deficient employer contributions.

CPA is involved in certain legal actions and claims that arise in the ordinary course of business. Management believes that, as a result of its legal defenses and insurance arrangements, none of these matters will have a material adverse effect on CPA's financial position, change in net position or cash flows.

(12) Major Customers

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

During the years ended September 30, 2013 and 2012, three customers accounted for 59% and 58%, respectively, of the total operating revenues of the Airport Division. Two customers accounted for 34% and 38% of the total operating revenues of the Seaport Division during the years ended September 30, 2013 and 2012, 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, 2013 and 2012, the remaining accrued expenses totaled $1,617,377 and $1,720,478, respectively, and accordingly, are included in accrued expenses in the accompanying financial statements.

(14) Restatements

At September 30, 2013, CPA adopted Government Accounting Standards Board issued GASB Statement (GASB) No. 65, *Previously Reported as Assets and Liabilities*. GASB 65 requires debt issuance costs to be expensed in the period incurred. Management has determined the following restatement is required to comply with GASB 65:

Net position:	
Net position at beginning of year 2012, as stated	$ 163,913,763
Deferred bond issuance cost adjustment	(1,260,492)
Net position at beginning of year 2012, as restated	$ 162,653,271

	As Originally Stated	As Restated
Deferred bond issue costs and amortization expense:		
Deferred bond issue costs	$ 1,193,527	$ -
Amortization of bond issue costs	66,965	-
	$ 1,260,492	$ -

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Net Position
September 30, 2013

ASSETS AND DEFERRED OUTFLOWS	Airport Division	Seaport Division	Elimination	Total
Current assets:				
Cash	$ 9,421,352	$ 3,043,506	$ -	$ 12,464,858
Receivables:				
Grantor agencies	428,761	7,139	-	435,900
Operations, net	2,558,733	404,771	-	2,963,504
Related party, net	-	445,912	-	445,912
Due from Seaport Division	13,663	-	(13,663)	-
Officers and employees	8,850	3,130	-	11,980
Prepaid expenses	231,120	73,100	-	304,220
Investments, restricted for debt service and other purposes	3,293,531	13,730,514	-	17,024,045
Total current assets	15,956,010	17,708,072	(13,663)	33,650,419
Capital assets, net	157,368,559	38,628,749	-	195,997,308
Deferred outflows from cost of refunding debt	-	837,150	-	837,150
Total assets and deferred outflows	$ 173,324,569	$ 57,173,971	$ (13,663)	$ 230,484,877
LIABILITIES AND NET POSITION				
Current liabilities:				
Revenue bonds payable, current portion	$ 565,000	$ 1,215,000	$ -	$ 1,780,000
Note payable to related party, current portion	-	251,387	-	251,387
Contractors payable	3,786,058	-	-	3,786,058
Trade and other payables	173,703	14,364	-	188,067
Due to related parties	2,079,218	315,661	-	2,394,879
Due to Airport Division	-	13,663	(13,663)	-
Accrued expenses	361,155	1,761,720	-	2,122,875
Unearned revenues	80,046	-	-	80,046
Compensated absences, current portion	224,908	25,339	-	250,247
Total current liabilities	7,270,088	3,597,134	(13,663)	10,853,559
Noncurrent liabilities:				
Accrued interest payable	-	546,679	-	546,679
Compensated absences, net of current portion	281,630	39,985	-	321,615
Revenue bonds payable, net of current portion	12,860,000	29,118,967	-	41,978,967
Note payable to related party, net of current portion	-	4,755,739	-	4,755,739
Total noncurrent liabilities	13,141,630	34,461,370	-	47,603,000
Total liabilities	20,411,718	38,058,504	(13,663)	58,456,559
Net position:				
Invested in capital assets, net of related debt	143,943,559	4,124,806	-	148,068,365
Restricted	3,293,531	13,730,514	-	17,024,045
Unrestricted	5,675,761	1,260,147	-	6,935,908
Total net position	152,912,851	19,115,467	-	172,028,318
	$ 173,324,569	$ 57,173,971	$ (13,663)	$ 230,484,877

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2013

	Airport Division	Seaport Division	Elimination	Total
Operating revenues:				
Aviation fees	$ 7,283,629	$ -	$ -	$ 7,283,629
Seaport fees	-	4,400,748	-	4,400,748
Concession and lease income	4,751,173	1,148,581	-	5,899,754
Other	1,373,898	435,577	-	1,809,475
	13,408,700	5,984,906	-	19,393,606
(Bad debts) recoveries	(54,232)	138,553	-	84,321
Operating revenues, net	13,354,468	6,123,459	-	19,477,927
Operating expenses:				
Depreciation and amortization	9,876,451	2,722,351	-	12,598,802
Salaries and wages	4,334,212	643,052	-	4,977,264
Utilities	1,895,427	128,281	-	2,023,708
Insurance	600,402	774,425	-	1,374,827
Contractual services	646,229	109,621	-	755,850
Employee benefits	562,483	82,637	-	645,120
Supplies	411,212	100,467	-	511,679
Repairs and maintenance	459,108	27,771	-	486,879
Professional fees	229,330	8,718	-	238,048
Travel	90,519	24,483	-	115,002
Training	53,604	-	-	53,604
Promotion and advertising	37,660	1,123	-	38,783
Other	716,310	267,570	-	983,880
Total operating expenses	19,912,947	4,890,499	-	24,803,446
Operating (loss) income	(6,558,479)	1,232,960	-	(5,325,519)
Non-operating revenues (expenses):				
Passenger facility charges	2,310,214	-	-	2,310,214
Other grant revenues and contributions	252,585	222,418	-	475,003
Interest income	18,637	244,301	-	262,938
Interest expense	(640,878)	(2,147,720)	-	(2,788,598)
Total non-operating revenues (expenses), net	1,940,558	(1,681,001)	-	259,557
Loss before capital contributions	(4,617,921)	(448,041)	-	(5,065,962)
Capital contributions	14,399,099	343,993	-	14,743,092
Change in net position	9,781,178	(104,048)	-	9,677,130
Net position at beginning of year, as restated	143,131,673	19,219,515	-	162,351,188
Net position at end of year	$ 152,912,851	$ 19,115,467	$ -	$ 172,028,318

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2013

	Airport Division	Seaport Division	Elimination	Total
Cash flows from operating activities:				
Cash received from customers	$ 13,165,992	$ 5,841,823	$ -	$ 19,007,815
Cash payments to suppliers for goods and services	(6,326,967)	(1,520,411)	-	(7,847,378)
Cash payments to employees for services	(4,922,580)	(725,179)	-	(5,647,759)
Net cash provided by operating activities	1,916,445	3,596,233	-	5,512,678
Cash flows from noncapital financing activity:				
Other grant revenues and contributions	252,585	222,418	-	475,003
Net cash provided by noncapital financing activity	252,585	222,418	-	475,003
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(18,992,436)	(464,353)	-	(19,456,789)
Capital and other contributions received	17,279,214	341,854	-	17,621,068
Passenger facility charge receipts	2,310,214	-	-	2,310,214
Principal paid on revenue bond maturities	(530,000)	(1,145,000)	-	(1,675,000)
Payments on note payable to related party	-	(244,312)	-	(244,312)
Interest paid on revenue bonds and note payable to related party	(855,625)	(2,104,288)	-	(2,959,913)
Net cash used for capital and related financing activities	(788,633)	(3,616,099)	-	(4,404,732)
Cash flows from investing activities:				
Net investment liquidation (purchases), restricted	723,049	(434,039)	-	289,010
Interest income	18,637	244,301	-	262,938
Net cash provided by (used for) investing activities	741,686	(189,738)	-	551,948
Net change in cash	2,122,083	12,814	-	2,134,897
Cash at beginning of year	7,299,269	3,030,692	-	10,329,961
Cash at end of year	$ 9,421,352	$ 3,043,506	$ -	$ 12,464,858
Reconciliation of operating (loss) income to net cash provided by operating activities:				
Operating (loss) income	$ (6,558,479)	$ 1,232,960	$ -	$ (5,325,519)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation and amortization	9,876,451	2,722,351	-	12,598,802
Bad debts (recoveries)	54,232	(138,553)	-	(84,321)
(Increase) decrease in assets:				
Receivables - operations	(308,501)	39,248	-	(269,253)
Interdivisional accounts	19,108	(19,108)	-	-
Receivables - officers and employees	(3,051)	40	-	(3,011)
Prepaid expenses	(54,926)	(73,000)	-	(127,926)
Receivables - related parties	-	(87,908)	-	(87,908)
Increase (decrease) in liabilities:				
Accounts payable - trade and other	43,751	(7,585)	-	36,166
Accounts payable - related parties	(976,801)	23,427	-	(953,374)
Accrued expenses	(199,191)	(96,149)	-	(295,340)
Deferred income	49,737	-	-	49,737
Compensated absences	(25,885)	510	-	(25,375)
Net cash provided by operating activities	$ 1,916,445	$ 3,596,233	$ -	$ 5,512,678

See Accompanying Independent Auditors' Report.