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INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Ports Authority:

We have audited the accompanying statements of net assets of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of CPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commonwealth Ports Authority as of September 30, 2004 and 2003, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 24 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth Ports Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Commonwealth Ports Authority's basic financial statements. The combining divisional information (pages 25 through 27) is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth Ports Authority's management. The combining divisional information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2005, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

July 29, 2005

COMMONWEALTH PORTS AUTHORITY

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MANAGEMENT DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (MD&A) statement is an introductory analysis of the combined financial activities of the airports and seaports of the Commonwealth Ports Authority (CPA) as represented in the audited financial statements for the fiscal year 2004 from October 1, 2003 to September 30, 2004. This analysis should be read in conjunction with the more detailed information contained within the accompanying financial statements.

The nationally recognized accounting firm of Deloitte & Touche LLC issued a clean unqualified audit opinion which states: "In our opinion, such financial statements present fairly, in all material aspects, the financial position of the Commonwealth Ports Authority as of September 30, 2004 and 2003, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America".

INTRODUCTION

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

The Commonwealth Ports Authority is tasked with the responsibility to operate, maintain, and improve all airports and seaports within the CNMI. Airport facilities currently exist in the islands of Saipan, Tinian, and Rota. Seaport facilities currently exist in the islands of Saipan, Tinian, and Rota. The Commonwealth Ports Authority has 167 employees on Saipan, 33 employees on Rota, and 23 employees on Tinian.

The following MD&A of the Commonwealth Ports Authority's activities and financial performance provides an introduction to the financial statements of the Commonwealth Ports Authority for the fiscal year ended September 30, 2004, with selected comparative information to the fiscal year ended September 30, 2003.

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

OVERVIEW OF FINANCIAL STATEMENTS

The Commonwealth Ports Authority's financial transactions and subsequent statements are prepared according to generally accepted accounting principles and standards mandated by the Governmental Accounting Standards Board, as applicable to governmental entities.

SAIPAN INTERNATIONAL AIRPORT / SEAPORT
P.O. Box 501055, Saipan, MP 96950

ROTA INTERNATIONAL AIRPORT / SEAPORT
P.O. Box 561, Rota, MP 96951

WEST TINIAN AIRPORT / SEAPORT
San Jose Village, Tinian, MP 96952

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

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

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

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

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

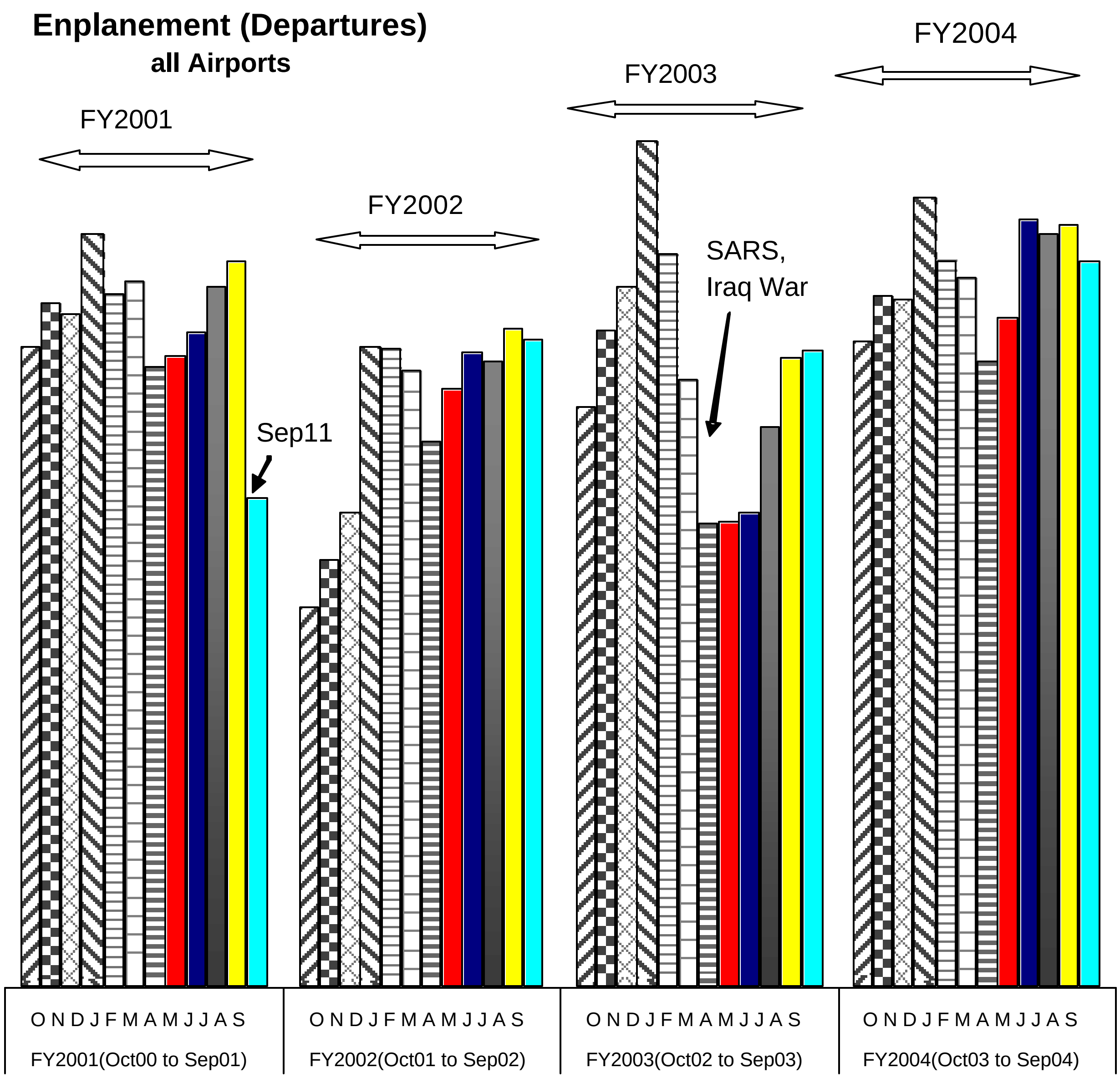
The Notes to Financial Statements provide additional information essential for a full understanding of the data provided in the financial statements.

AIRPORT DIVISION

FY2004 Enplanement (Departures) the Saipan Airport

FY2004 enplanement rebounded strongly from the aftermath of 9/11 in FY2002, followed by the impact of SARS and the Iraq War in FY2003. Enplanement in FY2004 of 609,502 passengers exceeded passenger levels set in FY2001, which had 567,848 passengers prior to the aftermath of 9/11. Enplanement in FY2004 increased by 16% or 85,999 passengers compared to FY2003 due to increased passenger activity from air carriers.

ENPLANEMENT	**FY2001**	**FY2002** after 9/11	**FY2003** SARS	**FY2004**
October	45,635	27,109	41,380	45,946
November	48,675	30,357	46,821	49,223
December	47,902	33,823	49,791	49,001
January	53,653	45,625	60,231	56,353
February	49,347	45,524	52,227	51,814
March	50,258	43,955	43,180	50,453
April	44,235	38,978	32,980	44,564
May	45,051	42,613	33,103	47,706
June	46,562	45,277	33,768	54,691
July	49,817	44,519	39,867	53,733
August	51,838	47,007	44,811	54,301
September	34,875	46,086	45,344	51,717
TOTAL	**567,848**	**490,873**	**523,503**	**609,502**
Change from prior year		*(76,975)*	*32,630*	*85,999*
% change		*-14%*	*7%*	*16%*



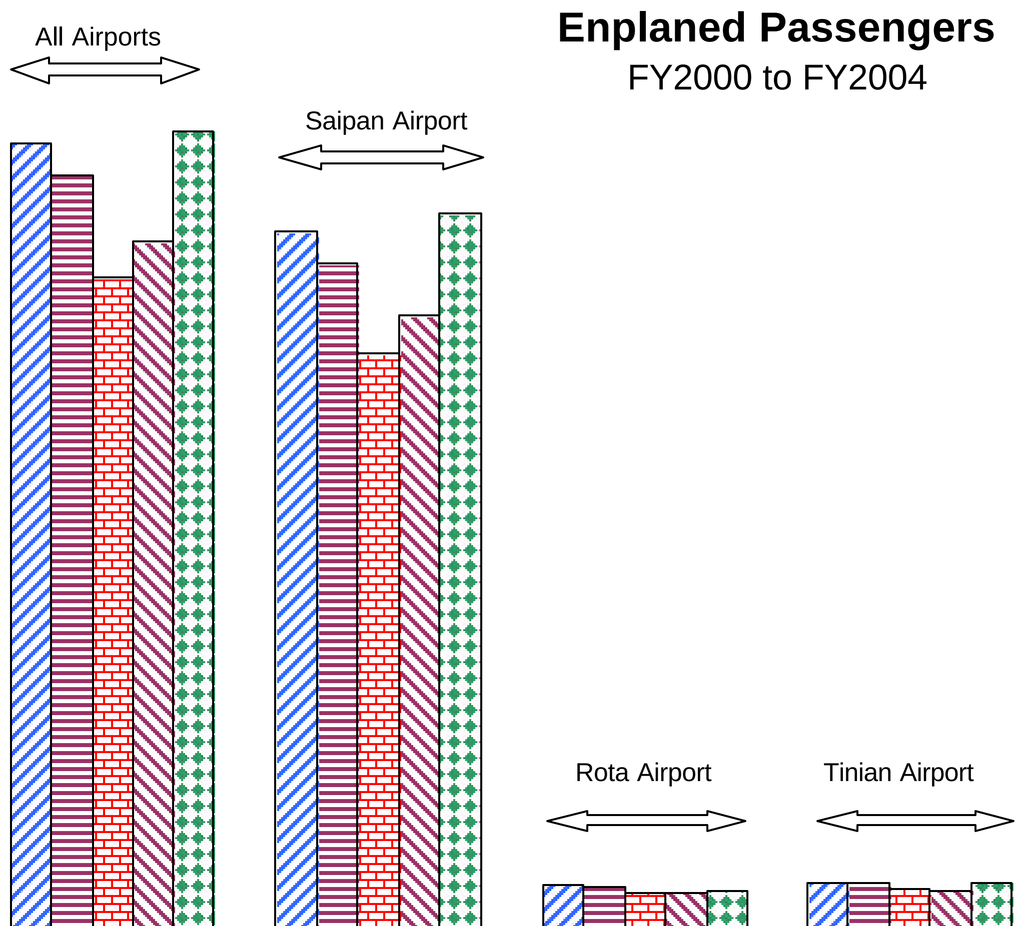
FY2004 Enplanement (Departures) for Each Airport

Each airport experienced an increase in enplanement in FY2004 as compared to FY2003. Saipan Airport enplanement increased by 16%; Rota Airport increased by 5%; and Tinian Airport increased by 25%.

ENPLANEMENT

	FY2003	FY2004	Change	%
All Airports	585,255	680,667	95,412	16%
Saipan	523,503	609,502	85,999	16%
Rota	30,325	31,760	1,435	5%
Tinian	31,427	39,405	7,978	25%

Enplanement in FY2004 was at its highest over the past five years for Saipan and Tinian airports and for all airports combined, with the exception for the Rota Airport.



	ALL Airports	Saipan	Rota	Tinian
FY2000	670,853	594,966	37,055	38,832
FY2001	643,139	567,848	36,082	39,209
FY2002	554,794	490,873	30,585	33,336
FY2003	585,255	523,503	30,325	31,427
FY2004	680,667	609,502	31,760	39,405

Cost per Enplaned Passenger

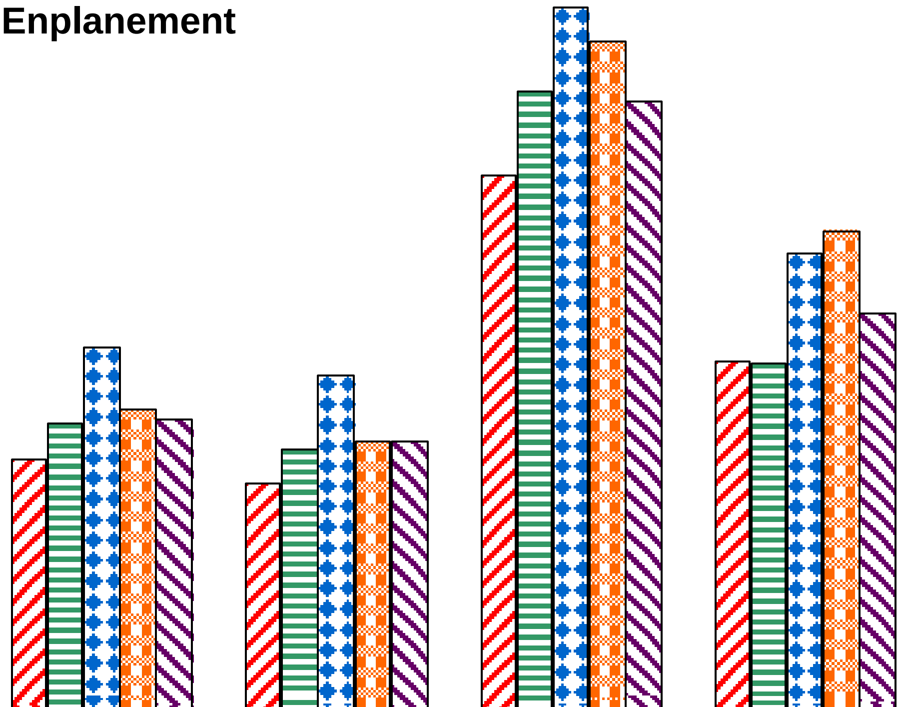
FY2004 Cost per Enplaned Passenger had significant 3% overall reduction for all airports, a 9% reduction for Rota Airport and 17% reduction for Tinian Airport when compared to FY2003. The reduction in Cost per Enplaned Passenger was due to a reduction in operating expenses and increases in enplaned departing passengers.

Cost per Enplaned Passenger

	FY2004	FY2003	Change	%
All Airports	$ 15.48	$ 15.96	$ (0.48)	-3%
Saipan	$ 14.24	$ 14.25	$ (0.01)	0%
Rota	$ 32.35	$ 35.56	$ (3.21)	-9%
Tinian	$ 21.09	$ 25.52	$ (4.43)	-17%

When viewed over 5 year period from FY2000 to FY2004, the Cost per Enplaned Passenger showed significant reductions in FY2003 and FY2004 from its peak in FY2002.

Cost Per Enplanement



	ALL	Saipan	Rota	Tinian
FY2000	$13.31	$12.03	$28.35	$18.60
FY2001	$15.21	$13.86	$32.85	$18.49
FY2002	$19.31	$17.85	$37.38	$24.32
FY2003	$15.96	$14.25	$35.56	$25.52
FY2004	$15.48	$14.24	$32.35	$21.09

Financial Position Summary - Airport Division (Statement of Net Assets)

Total net assets over time serves as a useful indicator of the Authority's financial position for its Airport Division. Assets in FY2004 for the Airport Division exceeded its liabilities by $90.3 million as of September 30, 2004, which represents a 5% or $4 million increase as compared to September 30, 2003.

Statement of Net Assets

Airport Division	**FY2004** Audited	**FY2003** Audited	*Change*	*%*
Total assets	**$ 113,794,783**	**$ 110,146,759**	***$ 3,648,024***	***3%***
Total liabilities	$ 23,530,491	$ 24,740,367	*$ (1,209,876)*	*-5%*
Total net assets	90,264,292	85,406,392	*4,857,900*	*6%*
Total liabilities and net assets	**$ 113,794,783**	**$ 110,146,759**	***$ 3,648,024***	***3%***

The largest portion of the Airport Division's FY2004 net assets of $90.3 million is comprised of its 87% or $78.3 million investment in its capital assets, net of related debt, as shown in the schedule below. Capital assets consist of airport terminal facilities and equipment, runways, fire and rescue equipment and other airport improvements and equipment. These capital assets are used to provide facilities to the air carriers, airport tenants, users and passengers. The resources required to pay the debt related to the capital assets must be provided annually by operations, since the capital assets themselves cannot be used to liquidate its liabilities.

Restricted assets represent 2.8% or $2.5 million of the Authority's net assets with restrictions imposed by bondholder covenants and Federal grant regulations. The remaining unrestricted net assets represent 11% or $9.5 million of the Authority's net assets and are primarily used to meet any of the Authority's ongoing obligations.

Statement of Net Assets

Airport Division	**FY2004** Audited	**FY2003** Audited	*Change*	*%*
Current assets	$ 10,793,235	$ 10,902,957	*$ (109,722)*	*-1%*
Restricted assets	2,484,239	2,854,224	*(369,985)*	*-13%*
Non-current assets	100,517,309	96,389,578	*4,127,731*	*4%*
Total assets	**$ 113,794,783**	**$ 110,146,759**	***$ 3,648,024***	***3%***
Current liabilities	$ 5,276,649	$ 6,161,776	*$ (885,127)*	*-14%*
Long-term liabilities	18,253,842	18,578,591	*(324,749)*	*-2%*
Total liabilities	**23,530,491**	**24,740,367**	***(1,209,876)***	***-5%***
Investment in capital assets, net of related debt	78,264,748	74,162,796	*4,101,952*	*6%*
Restricted assets	2,484,239	2,854,224	*(369,985)*	*-13%*
Unrestricted assets	9,515,305	8,389,372	*1,125,933*	*13%*
Total net assets	**90,264,292**	**85,406,392**	***4,857,900***	***6%***
Total liabilities and net assets	**$ 113,794,783**	**$ 110,146,759**	***$ 3,648,024***	***3%***

FY2004 Financial Operations Highlights for Airport Division

- Operating revenue for the Airport Division increased by 18% or $1.8 million from $10.5 million in FY2003 to $12.4 million in FY2004 primarily caused by the 16% increase in enplanement passenger levels which resulted in higher passenger fee collections.

- Operations and maintenance expenses for the Airport Division increased by 13% or $1.2 million from $9.3 million in FY2003 to $10.5 million in FY2004 caused by increased expenses for urgently needed repairs to the air conditioner systems at the passenger terminals, increased legal fees for its construction and lease contracts and increase in allowance for bad debts.

- Operating income for the Airport Division, before depreciation, increased by 55% or $647,144 from $1.2 million in FY2003 to $1.8 million in FY2004 primarily due to higher passenger fees attributed to the 16% increase in enplanement.

Summary of Changes In Net Assets for Airport Division

A condensed summary of the Statement of Revenues, Expenses and Changes in Net Assets for the Airport Division as of the fiscal years ended September 30 for FY2004 and FY2003 is shown below:

Statement of Revenues, Expenses and Changes in Net Assets

Airport Division	**FY2004** Audited	**FY2003** Audited	*Difference*	*% Change*
Revenues from operations	$ 12,369,455	$ 10,523,759	*$ 1,845,696*	*18%*
Operations and maintenance expenses	(10,538,110)	(9,339,558)	*(1,198,552)*	*13%*
Operating income (before depreciation)	**1,831,345**	**1,184,201**	***647,144***	***55%***
Depreciation and amortization	(5,700,500)	(6,501,116)	*800,616*	*-12%*
Operating loss (after depreciation)	**(3,869,155)**	**(5,316,915)**	***1,447,760***	***-27%***
Non-operating revenues and expenses, net	(846,016)	(587,373)	*(258,643)*	*44%*
Loss before capital contributions and transfers	**(4,715,171)**	**(5,904,288)**	***1,189,117***	***-20%***
Capital contributions and transfers	9,573,071	10,546,285	*(973,214)*	*-9%*
Changes in net assets	**$ 4,857,900**	**$ 4,641,997**	***$ 215,903***	***5%***
Net assets reconciliation:				
Net assets - beginning	$ 85,406,392	$ 80,764,395	*$ 4,641,997*	*6%*
Changes in net assets	4,857,900	4,641,997	*215,903*	*5%*
Net assets - ending	**$ 90,264,292**	**$ 85,406,392**	***$ 4,857,900***	***6%***

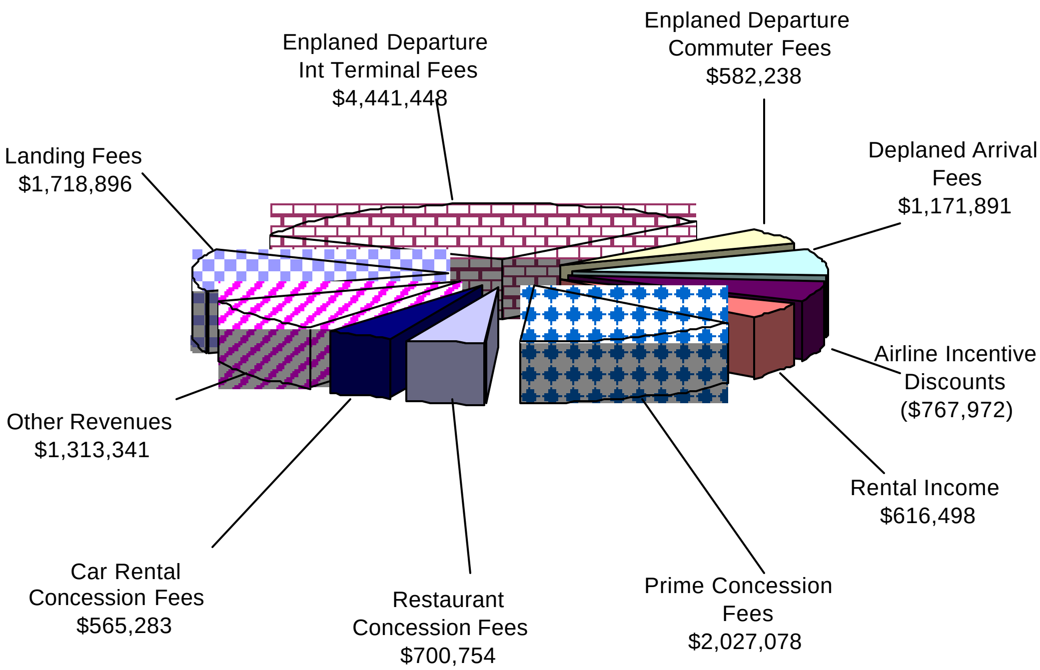
(*FY2004 beginning net assets includes audit adjustment for additional depreciation)

FY2004 Airport Revenues

Enplaned departure passenger fees of $4.4 million at the Int. Terminal are 35% of airport revenues comprising its largest portion. Duty Free concession fees and landing fees are 16% and 14% of revenues, respectively. Incentive discounts at a cost of 6% of total revenues were provided as a post-9/11 inducement to encourage airlines to bring passengers above their median loads and from new markets.

Airport Revenues	**FY2004**	**%**
Landing Fees	$ 1,718,896	*14%*
Enplaned Departure Int. Terminal Fees	4,441,448	*36%*
Enplaned Departure Commuter Fees	582,238	*5%*
Deplaned Arrival Fees	1,171,891	*9%*
Airline Incentive Discounts	(767,972)	*-6%*
Rental Income	616,498	*5%*
Prime Concession Fees	2,027,078	*16%*
Restaurant Concession Fees	700,754	*6%*
Car Rental Concession Fees	565,283	*4%*
Other Revenues	1,313,341	*11%*
Total Airport Revenues	**$ 12,369,455**	***100%***

The following chart shows the major airport revenue sources and the dollar amounts for the fiscal year ended September 30, 2004.



FY2004 Airport Revenues

FY2004 Airport Revenues

Airport revenues increased in FY2004 by $1.8 million or 18% above prior year levels. Higher passenger levels caused an increase in all revenue categories for aviation, concession and lease income and other airport revenues in FY2004 as compared to FY2003 as shown in the revenues summaries shown below.

Airport Revenues from Operations	**FY2004** Audited	**FY2003** Audited	*Change*	*%*
Aviation revenues (before discounts)	$ 7,914,473	$ 6,494,030	*$ 1,420,443*	*22%*
Airline incentive discounts	(767,972)	(291,933)	*(476,039)*	*163%*
Aviation revenue (after discounts)	**7,146,501**	**6,202,097**	***944,404***	***15%***
Concession and lease income	**3,909,613**	**3,419,759**	***489,854***	***14%***
Other airport revenues	**1,313,341**	**901,903**	***411,438***	***46%***
Total revenues from operations	**$ 12,369,455**	**$ 10,523,759**	***$ 1,845,696***	***18%***

Aviation revenues in FY2004, before incentive discounts are applied, were $1.4 million or 22% ahead of FY2003 due to a 16% increase in enplanement passengers and a 7% increase in the enplanement fee from $7.45 to $8.00 effective October 1, 2003.

However, when incentive discounts of $767,972 were applied, the gain in aviation revenues was reduced by 34% down from $1.4 million to $944,404. Incentive discounts were provided to airlines to bring in additional passengers from new markets and above their median levels as a means to stimulate an increase in passenger traffic after 9/11 and SARS.

Lease rental income and concession revenues from duty free shops, restaurants and car rental companies increased by $489,854 or 14% in FY2004 compared to the prior year, mainly due to increased passenger levels. Other airport revenues increased by $411,438 or 46% from the prior year.

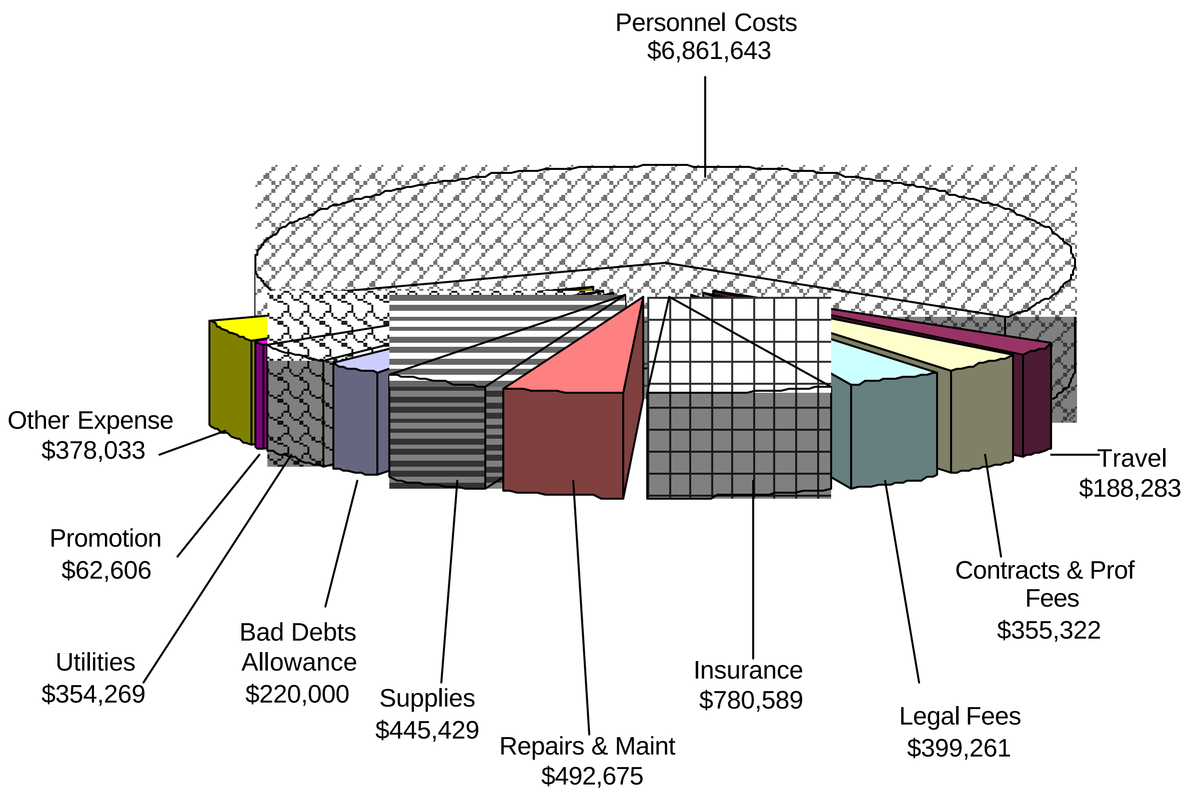
Airport Revenues from Operations	**FY2004** Audited	**FY2003** Audited	*Change*	*%*
Landing fees	$ 1,718,896	$ 1,625,860	*$ 93,036*	*6%*
Enplaned departure international terminal fees	4,441,448	3,349,324	*1,092,124*	*33%*
Enplaned departure commuter fees	582,238	495,122	*87,116*	*18%*
Deplaned arrival fees	1,171,891	1,023,724	*148,167*	*14%*
Aviation revenue (before discounts)	**7,914,473**	**6,494,030**	***1,420,443***	***22%***
Airline incentive discounts	(767,972)	(291,933)	*(476,039)*	*163%*
Aviation revenue (after discounts)	**7,146,501**	**6,202,097**	***944,404***	***15%***
Prime concession fees	2,027,078	1,774,958	*252,120*	*14%*
Rental income	616,498	541,603	*74,895*	*14%*
Restaurant concession fees	700,754	615,035	*85,719*	*14%*
Car rental concession fees	565,283	488,163	*77,120*	*16%*
Concession and lease revenue	**3,909,613**	**3,419,759**	***489,854***	***14%***
Fuel flowage fees	287,266	231,195	*56,071*	*24%*
Incinerator - airlines	280,779	223,396	*57,383*	*26%*
Bus and tax permits	175,422	164,791	*10,631*	*6%*
Parking revenues	124,669	132,514	*(7,845)*	*-6%*
Other revenues	445,205	150,007	*295,198*	*197%*
Other airport revenues	**1,313,341**	**901,903**	***411,438***	***46%***
Airport operating revenues	**$ 12,369,455**	**$ 10,523,759**	***$ 1,845,696***	***18%***

FY2004 Operating Expenses for the Airport Division

Personnel costs of $6.9 million represent the major operating expense by comprising 65% of total airport operating expenses. Insurance expense costs $780,589 to insure the three airport facilities on Saipan, Rota and Tinian and is 7% of operating expense. Repairs expense is $492,675 or 5% of operating expense. Supplies and legal expense are both at 4% of operating expenses.

Airport Expenses	**FY2004**	**%**
Personnel Costs	$ 6,861,643	*65%*
Travel	188,283	*2%*
Contracts and Professional Fees	355,322	*3%*
Legal Fees	399,261	*4%*
Insurance	780,589	*7%*
Repairs and Maintenance	492,675	*5%*
Supplies	445,429	*4%*
Bad Debts	220,000	*2%*
Utilities	354,269	*3%*
Promotion	62,606	*1%*
Other Expense	378,033	*4%*
Total Airport Expenses	**$ 10,538,110**	***100%***

The following chart shows the major expense amounts for the fiscal year ended September 30, 2004.



FY2004 Airport Expenses

FY2004 Operating Expenses for the Airport Division

Airport operating expenses increased in FY2004 by 13% or $1.2 million from $9.3 million in FY2003 to $10.5 million in FY2004. Although personnel costs were kept at prior year levels, the bulk of the operating expense increase was attributed to maintenance and operating expenses, which increased by 49% or $1.2 million from $2.5 million in FY2003 to $3.7 million in FY2004.

All Airports	**FY2004** Audited	**FY2003** Audited	*Change*	*%*
Operating expenses				
Personnel costs	$ 6,861,643	$ 6,864,712	*$ (3,069)*	*0%*
Maintenance and operating expenses	3,676,467	2,474,846	*1,201,621*	*49%*
Total operating expenses	**$ 10,538,110**	**$ 9,339,558**	***$ 1,198,552***	***13%***

In terms of overall personnel costs, the 3% decrease in employee benefits offset the slight 1% increase in salaries, which resulted in personnel costs kept at prior year levels, as shown in the following schedule of operating expense.

However, the 49% or $1.2 million increase in maintenance and operating expenses came about by necessary increases in several operating expense categories. Repairs expense increased by 119% or $268,163 due to urgently needed repairs in the large air-conditioners at the passenger terminals and repairs to the access road to the newly opened Pacific Region ARFF Fire Training School. Contracts and professional fees expense increased by 99% or $176,651 due to contracts with an independent airport financial consultant to do an Airport Rate Study Update as required by the bond covenants and to prepare the passenger facility charge (PFC) application to the Federal Aviation Administration (FAA). Supplies expense increased by 40% or $126,360 due to expenses for hosting the FAA Aviation Directors Workshop on Saipan and the opening ceremonies for the Pacific Region ARFF Fire Training School.

All Airports	**FY2004** Audited	**FY2003** Audited	*Change*	*%*
Personnel costs				
Salaries	$ 5,316,088	$ 5,266,154	*$ 49,934*	*1%*
Employee benefits	1,545,555	1,598,558	*(53,003)*	*-3%*
Total personnel costs	**6,861,643**	**6,864,712**	***(3,069)***	***0%***
Maintenance and operating expenses				
Travel	188,283	138,326	*49,957*	*36%*
Contracts and professional fees	355,322	178,671	*176,651*	*99%*
Legal fees	399,261	240,657	*158,604*	*66%*
Insurance	780,589	702,629	*77,960*	*11%*
Repairs and maintenance	492,675	224,512	*268,163*	*119%*
Supplies	445,429	319,069	*126,360*	*40%*
Bad debts	220,000	-	*220,000*	*100%*
Utilities	354,269	306,427	*47,842*	*16%*
Promotion	62,606	21,784	*40,822*	*187%*
Other expense	378,033	342,771	*35,262*	*10%*
Total maintenance and operating expenses	**3,676,467**	**2,474,846**	***1,201,621***	***49%***
Total operating expenses	**$ 10,538,110**	**$ 9,339,558**	***$ 1,198,552***	***13%***

Statement of Cash Flows

The following schedule summarizes the major sources and uses of Cash and Cash Equivalents for FY2004 and FY2003.

Statement of Cash Flows - Airport Division	**FY2004** Audited	**FY2003** Audited	*Change*	*%*
Net cash provided by operating activities	$ 1,274,554	$ 1,068,440	*$ 206,114*	*19%*
Net cash used for financing activities	(2,945,332)	(276,794)	*(2,668,538)*	*964%*
Net cash provided by (used for) investing activities	1,394,069	1,740,106	*(346,037)*	*-20%*
Net (decrease) increase in cash and cash equivalents	**(276,709)**	**2,531,752**	***(2,808,461)***	***-111%***
Cash and cash equivalents at beginning of year	4,420,458	1,888,706	*2,531,752*	*134%*
Cash and cash equivalents at end of year	**$ 4,143,749**	**$ 4,420,458**	***$ (276,709)***	***-6%***

Airport Restricted Investments:

Restricted investments for airport construction and debt service purposes represent the unused proceeds of the 1998 Airport Revenue Bonds deposited with the Trustee. The balances as of September 30, 2004 are:

Bond Reserve Fund	$ 1,626,005
Construction Fund	647,408
Bond Fund	181,227
Maintenance and Operations	29,599
Total	$ 2,484,239

Airport Bond Debt Coverage Ratio

The following schedule shows compliance in FY2004 with the bondholder debt service coverage ratio. The schedule was prepared by Ricondo & Associates recognized by Bond Counsel and Fitch Ratings as an independent airport financial consultant.

Commonwealth Ports Authority
Airport Facilities
Rate Covenant Review - (Audited FY 2004 Results)

SUMMARY DATA

	Actual FY 2002	Audited FY 2003	Budget FY 2004	Audited FY 2004	Projected FY 2005
DEBT SERVICE COVERAGE:					
Total Revenues	$10,305,966	$10,739,780	$11,591,153	$12,407,902	$13,900,514
Operating Expenses	10,715,722	9,339,561	10,087,289	10,538,110	11,012,825
Net Revenues	($409,756)	$1,400,219	$1,503,864	$1,869,792	$2,887,689
Debt Service	$1,485,625	$1,486,875	$1,486,875	$1,486,875	$1,485,625
Debt Service Coverage	**-0.28**	**0.94**	**1.01**	**1.26**	**1.94**

Prepared by: Ricondo & Associates, Inc.

1998 Airport Revenue Bonds of $20,050,000

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

Payments for the Airport bond are current. Annual airport bond payment is $1.4 million.

The long-term portion of the bond balance as of September 30, 2004 is $17,914,047.

This 1998 bond was partly used for an $8,250,000 refunding of a 1987 Series B tax-exempt bonds. The bond refunding consolidated existing bonds with new bonds to finance 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 that was netted out against the new debt and amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of $688,620 and an increase of $7,616,151 in debt service payments in the future.

Removal of Credit Watch Negative on Airport Bonds

The bond ratings agency, Fitch Ratings, imposed a credit watch status on the Airport Bonds on May 2003 citing CPA's technical default in not meeting the bond ratio in FY2002 and declining passenger levels caused by 9/11 and SARS.

In December 2004, Fitch Ratings removed its Credit Watch Negative Status due to: "CPA's rebounding enplanement levels, recovering financial position, and the recent approval of the FAA for CPA to implement a PFC. Fiscal year 2004's debt service coverage of 1.26x represented a substantial improvement over FY 2003 and FY 2002, when CPA failed to meet its rate covenant."

Fitch maintained the BBB- rating on the Airport Bonds due to: "The 'BBB-' rating reflects CPA's solid cash and investment levels, which equaled $5.6 million in FY 2004; modest debt level; and monopoly position for air travel within the Commonwealth. CPA's strong liquidity levels played a vital role in maintaining the investment grade rating and uninterrupted debt service payments during FY2003 and 2002 after a series of worldwide events that significantly reduced demand for air travel. Fitch views the relatively modest combined senior lien and subordinate lien debt levels ($26 million in FY2004) and lack of future debt needs as credit strengths." The text of Fitch Ratings December 2004 decision to remove the Credit Watch Negative and maintain the BBB- investment rating is shown in the following two pages.

FitchRatings

Rating Action Commentary

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Fitch Affirms N. Mariana Island Port Authority Airport Revs at 'BBB-'

Fitch Ratings-San Francisco–December 20, 2004 Fitch Ratings affirms and removes from Rating Watch Negative the 'BBB-' rating on $17,900,000 Commonwealth Ports Authority, Commonwealth of the Northern Mariana Islands Airport Revenue Bonds (CPA). The Rating Outlook is Negative.

The 'BBB-' rating reflects CPA's solid cash and investment levels, which equaled $5.6 million in fiscal-year (FY) 2004; modest debt level; and monopoly position for air travel within the Commonwealth. CPA's strong liquidity levels played a vital role in maintaining the investment grade rating and uninterrupted debt service payments during FY2002 and 2003 after a series of worldwide events that significantly reduced demand for air travel. Fitch views the relatively modest combined senior lien and subordinate lien debt levels ($26 million in FY2004) and lack of future debt needs as credit strengths. Adding to the credit quality is the fact that the CPA's three airports, Saipan, West Tinian and Rota provide the only commercial air service to the Commonwealth of the Northern Mariana Islands (CNMI), a major tourist destination for Asian travelers. However, the CNMI's dependence on international tourism makes it particularly vulnerable to outside influences on travel demand, including international and national economic trends, as well as significant weather related events.

The Rating Watch removal reflects CPA's rebounding enplanement levels, recovering financial position, and the recent approval of the Federal Aviation Administration (FAA) for the CPA to implement a passenger facility charge (PFC). Fiscal year 2004's debt service coverage of 1.26x represented a substantial improvement over FY 2002 and FY 2003, when the CPA failed to meet its rate covenant. Citing the 2002 technical default and depressed passenger figures, Fitch Ratings placed the authority on Rating Watch Negative in May 2003 and maintained the watch again in February 2004.

In the past two years CPA's management has taken positive steps towards reducing expenses and adding new revenue sources, which have strengthened its credit quality. The rebounding Japanese tourism market together with a CPA marketing campaign to attract more visitors, particularly from China, generated a 16% increase in passenger enplanements in FY2004. This resulted in a 16% increase in operating revenues, which equaled $12.4 million, for the year. While operating expenses increased by 12%, to $10.5 million, net revenue available for debt service rose to $1.9 million and provided adequate debt service coverage of 1.26x. This represented the CPA's second consecutive year of positive operating income and the first year since fiscal 2001 it complied with the rate covenant.

Adding to CPA's credit strengths is the recent FAA approval of the PFC, which the authority will begin collecting at the $4.50 rate on Jan. 1, 2005. The CPA may collect a total of $33 million in PFCS, which is expected to generate approximately $3 million annually. Of this annual amount, $560,000 is available to offset the authority's annual debt service, or about one-third of its annual obligation. Fitch believes CPA's decision to collect PFCs bolsters credit quality by providing an additional revenue source for debt service and maintain compliance with the rate covenant. Moreover, the airport's financial consultant projects that modest additional enplanement growth, following this year's 16% surge, and the addition of PFC revenues will generate net revenues providing approximately 1.94x coverage of FY2005 debt service.

The Negative Outlook is based on concerns regarding CPA's willingness to raise airline fees in a timely manner and avoid future technical defaults, long-term ability to preserve adequate liquidity and uncertainty regarding funding for future capital improvement projects. Fitch views the authority's recent airline rate increases as beneficial; however, the timeliness with which revenue shortfalls have historically been addressed remains a credit concern. The competitive nature of CPA's main industry, tourism, combined with the prominent role of the price sensitive packaged tours in the local tourism market; contribute to management's reluctance to raise airline fees. Therefore, Fitch believes CPA's ability to maintain solid liquidity levels is an essential buffer against potential downturns in passenger enplanements and crucial to maintaining future credit quality. Furthermore, CPA expects to embark on CIP projects in the near term that could potentially reduce the airport's financial flexibility. Offsetting this credit concern is the highly discretionary nature of the CIP program, the authority's plan to proceed only with assurances of substantial FAA funding, and the recently approved ability to collect PFCs which provides a dedicated source of local funding for these needs.

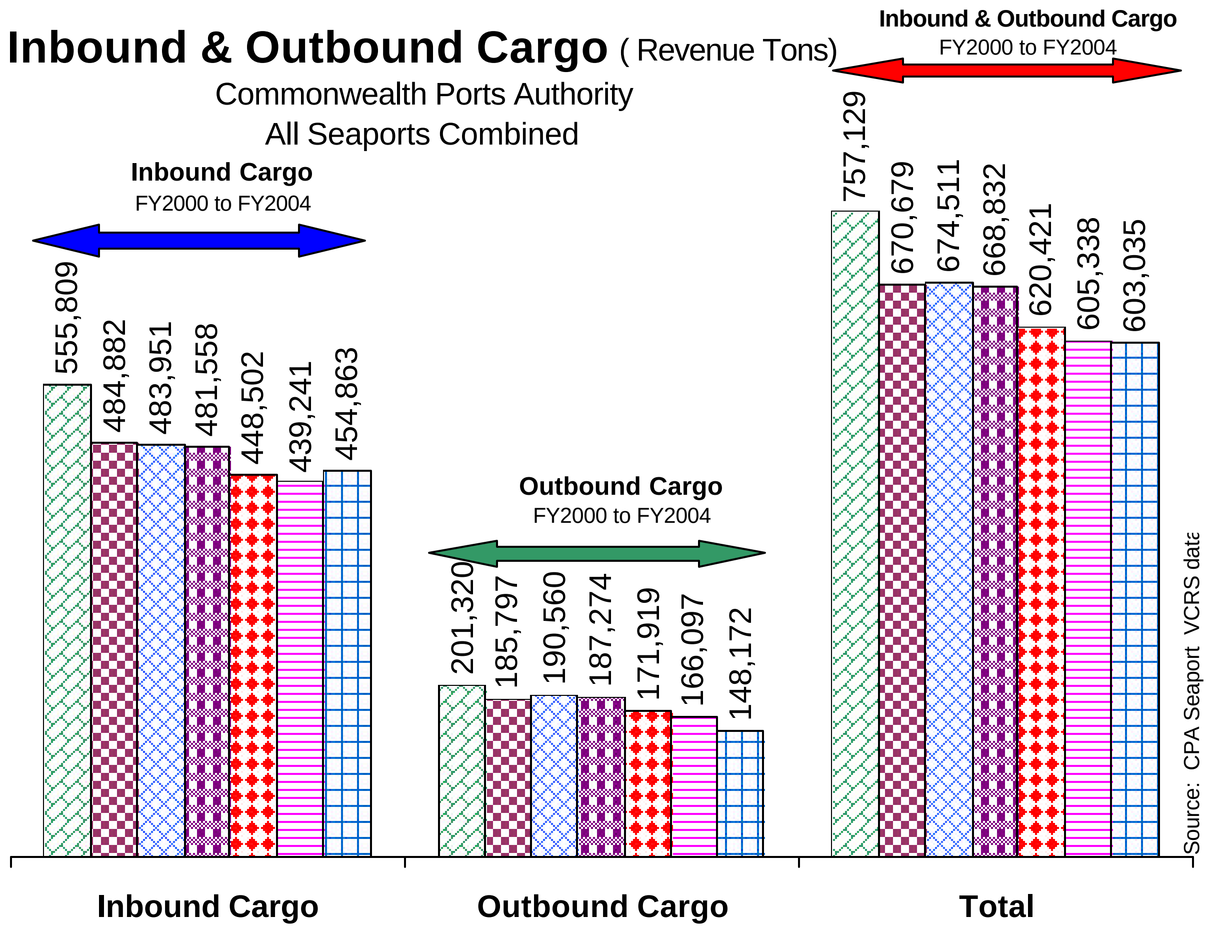
SEAPORT DIVISION

Seaport Activity

Seaport activity in FY2004 resulted in a 4% increase in Inbound Cargo revenue tonnage and an 11% decline in Outbound Cargo tonnage. The combined revenue tonnage remained fairly constant with FY 2003.

Revenues Tons (All Seaports Combined)	FY2004	FY2003	Change	%
Inbound	454,863	439,241	15,622	4%
Outbound	148,172	166,097	(17,925)	-11%
Total	603,035	605,338	(2,303)	-4%

The chart below shows inbound and outbound revenue tonnage from FY2000 to FY2004.



Financial Position Summary - Seaport Division (Statement of Net Assets)

Total net assets over time serves as a useful indicator of the Authority's financial position for its Seaport Division. Assets in FY2004 for the Seaport Division exceeded its liabilities by $20.5 million as which represents a 3% or $597,459 decrease as compared to FY 2003 mainly due to the application of depreciation.

Statement of Net Assets

Seaport Division	**FY2004** Audited	**FY2003** Audited	*Change*	*%*
Total assets	**$ 58,947,608**	**$ 60,460,664**	***$ (1,513,056)***	***-3%***
Total liabilities	$ 38,496,411	$ 39,412,008	*$ (915,597)*	*-2%*
Total net assets	20,451,197	21,048,656	*(597,459)*	*-3%*
Total liabilities and net assets	**$ 58,947,608**	**$ 60,460,664**	***$ (1,513,056)***	***3%***

The largest portion of the Seaport Division's FY2004 net assets of $20.4 million is comprised of its 52% or $10.5 million investment in its capital assets, net of related debt, as shown in the schedule below. Capital assets consist of harbor facilities and equipment, and other seaport improvements and equipment. These capital assets are used to provide facilities to the seaport carriers, seaport tenants, users and passengers. The resources required to pay the debt related to the capital assets must be provided annually by operations, since the capital assets themselves cannot be used to liquidate its liabilities.

Restricted assets represent 46% or $9.4 million of the Seaport Division's net assets which have restrictions imposed by bondholder covenants. The remaining unrestricted net assets represent 3% or $519,573 of the Authority's net assets and are primarily used to meet any of the ongoing obligations for the Seaport Division.

Statement of Net Assets

Seaport Division	**FY2004** Audited	**FY2003** Audited	*Change*	*%*
Current assets	$ 1,171,305	$ 1,176,398	*$ (5,093)*	*0%*
Restricted assets	9,385,025	8,538,929	*846,096*	*10%*
Non-current assets	48,391,278	50,745,337	*(2,354,059)*	*-5%*
Total assets	**$ 58,947,608**	**$ 60,460,664**	***$ (1,513,056)***	***-3%***
Current liabilities	$ 2,482,242	$ 2,215,808	*$ 266,434*	*12%*
Long-term liabilities	36,014,169	37,196,200	*(1,182,031)*	*-3%*
Total liabilities	**38,496,411**	**39,412,008**	***(915,597)***	***-2%***
Investment in capital assets, net of related debt	10,546,599	11,936,443	*(1,389,844)*	*-12%*
Restricted assets	9,385,025	8,538,929	*846,096*	*10%*
Unrestricted assets	519,573	573,284	*(53,711)*	*-9%*
Total net assets	**20,451,197**	**21,048,656**	***(597,459)***	***-3%***
Total liabilities and net assets	**$ 58,947,608**	**$ 60,460,664**	***$ (1,513,056)***	***-3%***

FY2004 Financial Operations Highlights for Seaport Division

- Operating revenue for the Seaport Division increased by 5% or $288,680 from $5.7 million in FY2003 to $5.9 million in FY2004 primarily due to the assessment of wharfage for fuel shipments.
- Operations and maintenance expenses for the Seaport Division increased by 14% or $238,955 from $1.7 million in FY2003 to $1.9 million in FY2004 caused by increased expenses for increased legal fees for its construction and lease contracts and increase in allowance for bad debts.
- Operating income for the Seaport Division, before depreciation, increased by 1% or $49,725 million from $3.99 million in FY2003 to $4 million in FY2004 primarily due to wharfage revenues from fuel shipments.

Summary of Changes In Net Assets for Seaport Division

A condensed summary of the Statement of Revenues, Expenses and Changes in Net Assets for the Seaport Division as of the fiscal years ending September 30 for FY2004 and FY2003 is shown below:

Statement of Revenues, Expenses and Changes in Net Assets

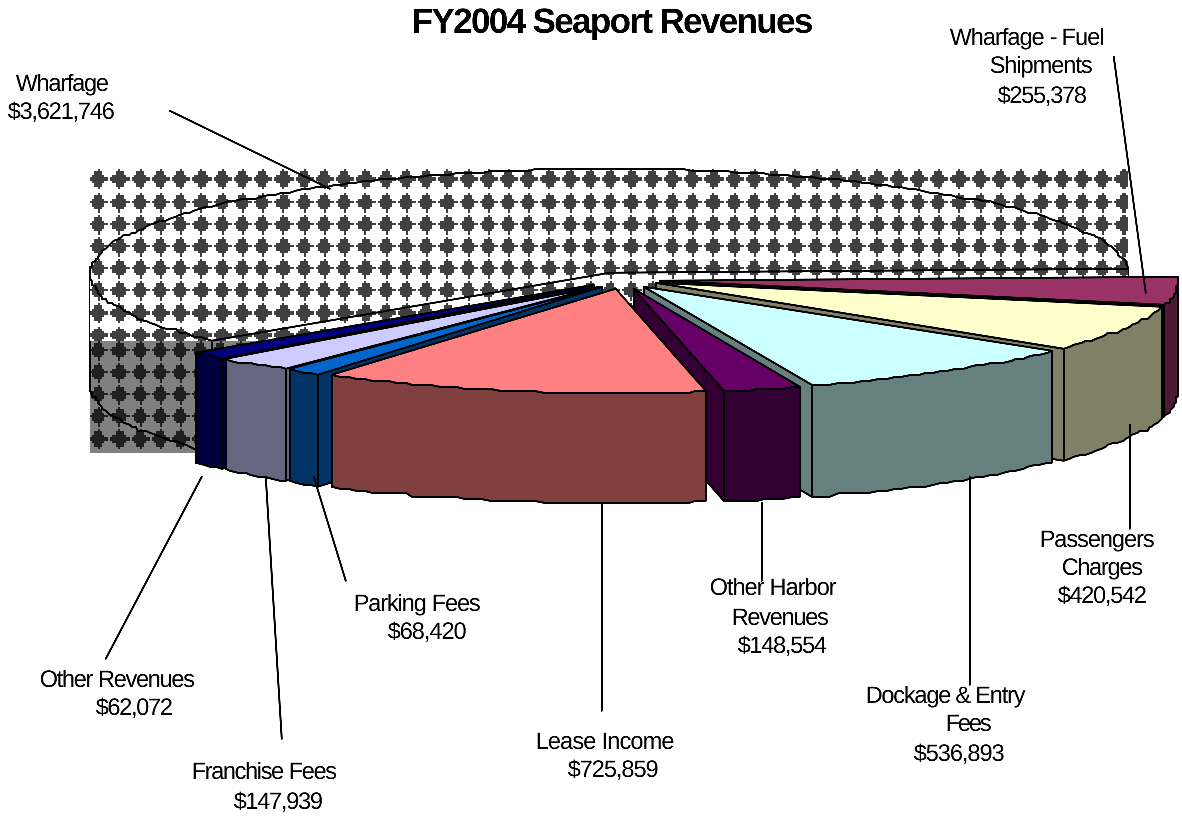
Seaport Division	**FY2004** Audited	**FY2003** Audited	*Difference*	*% Change*
Revenues from operations	$ 5,987,403	$ 5,698,723	*$ 288,680*	*5%*
Operations and maintenance expenses	(1,945,863)	(1,706,908)	*(238,955)*	*14%*
Operating income (before depreciation)	**4,041,540**	**3,991,815**	***49,725***	***1%***
Depreciation and amortization	(2,445,864)	(2,387,742)	*(58,122)*	*2%*
Operating income (after depreciation)	**1,595,676**	**1,604,073**	***(8,397)***	***-1%***
Non-operating revenues and expenses, net	(2,307,269)	(2,312,584)	*5,315*	*-0.2%*
Loss before capital contributions and transfers	**(711,593)**	**(708,511)**	***(3,082)***	***0.4%***
Capital contributions and transfers	114,134	6,894	*107,240*	*1556%*
Changes in net assets	**$ (597,459)**	**$ (701,617)**	***$ 104,158***	***-15%***
Net assets reconciliation:				
Net assets - beginning	$ 21,048,656	$ 21,750,273	*$ (701,617)*	*-3%*
Changes in net assets	(597,459)	(701,617)	*104,158*	*-15%*
Net assets - ending	**$ 20,451,197**	**$ 21,048,656**	***$ (597,459)***	***-3%***

FY2004 Seaport Revenues

The major source of FY2004 seaport revenues is derived from wharfage revenues of $3.6 million, which make up 61% of total revenues. Fuel shipment wharfage revenue of $255,378 makes up an additional 4% of seaport revenues. Lease income of $725,859 makes up 12% of seaport revenues followed by dockage and entry fee revenues of $536,893 at 9% of revenues.

Seaport Revenues	**FY2004**	**%**
Wharfage	$ 3,621,746	*61%*
Wharfage - Fuel Shipments	255,378	*4%*
Passenger Charges	420,542	*7%*
Dockage and Entry Fees	536,893	*9%*
Other Harbor Revenues	148,554	*3%*
Lease Income	725,859	*12%*
Franchise Income	147,939	*2%*
Parking Fees	68,420	*1%*
Other Non-Harbor Revenues	62,072	*1%*
Total Seaport Revenues	**$ 5,987,403**	***100%***

The following chart shows the major seaport revenue sources and the dollar amounts for the fiscal year ended September 30, 2004.



FY2004 Seaport Revenues

Total seaport revenues increased in FY2004 by 5% or $288,680 above prior year levels.

Harbor revenues increased by 6% or $271,748 in FY2004 from FY2003 mainly due to the assessment of wharfage charges for fuel shipment. Lease income and parking fees dropped by 6% or $50,049 and non-harbor revenues in FY2004 compared to FY2003. Non-harbor revenues increased by 47% or $66,981 in FY2004 compared to FT2003.

All Seaports	**FY2004** Audited	**FY2003** Audited	*Change*	*%*
Seaport revenues				
Harbor revenues	$ 4,983,113	$ 4,711,365	*$ 271,748*	*6%*
Lease income and parking fees	794,279	844,328	*(50,049)*	*-6%*
Non-harbor revenues	210,011	143,030	*66,981*	*47%*
Total seaport revenues	**$ 5,987,403**	**$ 5,698,723**	***$ 288,680***	***5%***

As shown in the revenue summary below, fuel shipment wharfage assessments of $255,378 and the 18% or $68,823 increase in ferry passenger charges are the reason for the 6% increase in harbor revenues. Lease income dropped by 6% or $45,314 and parking fees dropped by 6% or $4,735 for a combined decrease of 6% or $50,049 in Seaport lease income and parking fee revenues. Franchise fee revenues increased by 16% or $19,901 and other seaport revenue increased by 314% or $47,080 for a combined increase of 47% or $66,981.

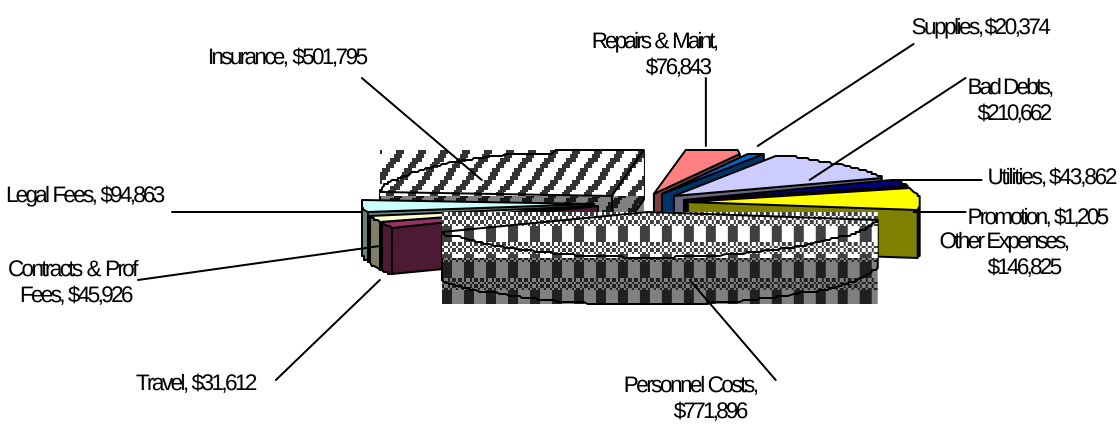
All Seaports	FY2004 Audited	FY2003 Audited	*Change*	*%*
Seaport revenues				
Wharfage	$ 3,621,746	$ 3,664,511	*$ (42,765)*	*-1%*
Dockage and entry fees	536,893	547,090	*(10,197)*	*-2%*
Passenger charges	420,542	356,719	*63,823*	*18%*
Wharfage - fuel shipments	255,378	-	255,378	*100%*
Other harbor revenues	148,554	143,045	*5,509*	*4%*
Harbor revenues	**4,983,113**	**4,711,365**	***271,748***	***6%***
Lease income	725,859	771,173	*(45,314)*	*-6%*
Parking fees	68,420	73,155	*(4,735)*	*-6%*
Lease income and parking fees	**794,279**	**844,328**	***(50,049)***	***-6%***
Franchise fees	147,939	128,038	*19,901*	*16%*
Other non-harbor revenues	62,072	14,992	*47,080*	*314%*
Non-harbor revenues	**210,011**	**143,030**	***66,981***	***47%***
Total seaport revenues	**$ 5,987,403**	**$ 5,698,723**	***$ 288,680***	***5%***

FY2004 Seaport Operating Expenses

The major expense category is personnel costs of $771,896, which make up 40% of the FY2004 operating expense for the Seaport Division. Seaport insurance of $501,795 is 26% of seaport expenses. A $210,662 allowance for bad debts makes up 11% of FY2004 expenses. Legal fees are 5% and repairs are 4% of seaport expenses.

Seaport Expenses	FY2004	%
Personnel Costs	$ 771,896	*40%*
Travel	31,612	*2%*
Contracts and Professional Fees	45,926	*2%*
Legal Fees	94,863	*5%*
Insurance	501,795	*26%*
Repairs and Maintenance	76,843	*4%*
Supplies	20,374	*1%*
Bad Debts	210,662	*11%*
Utilities	43,862	*2%*
Promotion	1,205	*0%*
Other Expense	146,825	*7%*
Total Seaport Expenses	**$ 1,945,863**	***100%***

The following chart shows the major expense amounts for the fiscal year ended September 30, 2004.



FY2004 Seaport Operating Expenses

FY2004 Operating Expenses for the Seaport Division

Seaport operating expenses increased in FY2004 by 14% or $238,955 from $1.7 million in FY2003 to $1.9 million in FY2004. Personnel costs came in at 10% or $86,607 below FY2003 levels. The bulk of the operating expense increase was attributed to maintenance and operating expenses, which increased by 38% or $325,562 from $848,405 in FY2003 to $1,173,967 in FY2004.

All Seaports	FY2004 Audited	FY2003 Audited	*Change*	*%*
Operating expenses				
Personnel costs	$ 771,896	$ 858,503	*$ (86,607)*	*-10%*
Maintenance and operating expenses	1,173,967	848,405	*325,562*	*38%*
Total operating expenses	**$ 1,945,863**	**$ 1,706,908**	***$ 238,955***	***14%***

Overall personnel costs have been kept in check in FY2004 as evidenced by the 9% decrease of $57,507 in salaries expense and the 14% decrease of $29,100 in employee benefits expense resulting in an overall combined 10% decrease of $86,607 in salaries expense.

However, the 38% or $325,562 increase in maintenance and operating expenses in FY2004 as compared to FY2003, is due to increases in several operating expense categories. Travel costs increased by 18% or $4,929 due to attendance at the annual APPA conference. Contracts increased by 31% or 10,876 and supplies expense increased by 50% or $6,785. An allowance for bad debts of $210,662 was incurred in FY2004, however, CPA continues to aggressively pursue the collection of its receivables.

On the other hand, legal fees were reduced substantially by 25% or $31,546 and repairs expense were reduced by 7% or $5,689.

All Seaports	FY2004 Audited	FY2003 Audited	*Change*	*%*
Personnel costs				
Salaries	$ 597,941	$ 655,448	*$ (57,507)*	*-9%*
Employee benefits	173,955	203,055	*(29,100)*	*-14%*
Total personnel costs	**771,896**	**858,503**	***(86,607)***	***-10%***
Maintenance and operating expenses				
Insurance	501,795	496,340	*5,455*	*1%*
Bad debts	210,662	-	*210,662*	*100%*
Legal fees	94,863	126,409	*(31,546)*	*-25%*
Repairs and maintenance	76,843	82,532	*(5,689)*	*-7%*
Contracts and professional fees	45,926	35,050	*10,876*	*31%*
Utilities	43,862	41,581	*2,281*	*5%*
Travel	31,612	26,683	*4,929*	*18%*
Supplies	20,374	13,589	*6,785*	*50%*
Promotion	1,205	5,730	*(4,525)*	*-79%*
Other expense	146,825	20,491	*126,334*	*617%*
Total maintenance and operating expenses	**1,173,967**	**848,405**	***325,562***	***38%***
Total operating expenses	**$ 1,945,863**	**$ 1,706,908**	***$ 238,955***	***14%***

Seaport Restricted Investments:

Restricted investments for seaport construction and debt service purposes represent the unused proceeds of the 1998 Airport Revenue Bonds deposited with the Trustee. The balances as of September 30, 2004 are:

Bond Reserve Fund	$ 2,691,759
Supplemental Reserve Fund	6,202,896
Reimbursement Fund	5,128
Bond Fund	307,200
Maintenance and Operations	178,042
Total Restricted Investments	$ 9,385,025

Notes Payable to Commonwealth Development Authority

CPA signed a promissory note with the Commonwealth Development Authority (CDA) with interest at 2.5% per annum. Payments are due quarterly and the note matures on November 16, 2014. The balance is $8,091,422 as of September 30, 2004. The CDA promissory note is subordinate to CPA's Seaport bond obligations.

As of September 30, 2004, CPA did not make the last quarterly payment. However, these payments have since been updated.

1998 Seaport Revenue Bonds of $33,775,000

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

Bond payments are current. Annual seaport bond payments are $2.6 million.

The balance of the long-term portion, as of September 30, 2004, is $29,215,631.

The seaport bond proceeds were partly used for a current refunding of $22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding consolidated existing debt with new debt issued to finance various seaport projects and to reduce total debt service payments in the future.

The bond reacquisition price exceeded the net carrying amount of the old debt by $1,345,593 netted out against the new debt and amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction resulted in an economic gain of $1,724,777 and a decrease of $6,983,345 in debt service payments in the future.

Seaport Supplemental Reserve Fund of $8,000,000

CPA agreed to deposit $700,000 annually into a "Seaport Supplemental Reserve Fund" beginning in 2001 and ending in 2005 when the fund balances reaches $8,000,000. The balance in the Supplemental Reserve Fund as of September 30, 2004 is $6,202,896 and contributions are current.

COMMONWEALTH PORTS AUTHORITY

Statements of Net Assets
September 30, 2004 and 2003
(With Combining Divisional Information as of September 30, 2004)

ASSETS	Airport Division	Seaport Division	2004	2003 (As Restated)
Current assets:				
Cash and cash equivalents	$ 4,143,749	$ 536,725	$ 4,680,474	$ 5,069,343
Investments	1,451,991	65,635	1,517,626	2,524,469
Receivables:				
Grantor agencies	3,233,270	62,698	3,295,968	2,121,099
Operations, net	1,853,055	428,347	2,281,402	2,029,756
Receivable from related parties	-	37,066	37,066	30,963
Due from Seaport Division	36,628	-	36,628	103,126
Officers and employees	27,698	3,029	30,727	29,830
Prepaid expenses	19,674	431	20,105	106,315
Deferred bond issue cost, current portion	27,170	37,374	64,544	64,454
Total current assets	10,793,235	1,171,305	11,964,540	12,079,355
Other assets:				
Investments restricted for construction and debt service purposes	2,484,239	9,385,025	11,869,264	11,393,153
Noncurrent assets:				
Deferred bond issue cost	592,297	814,568	1,406,865	1,464,348
Receivable from related parties	4,015,684	-	4,015,684	3,736,488
Capital assets, net	95,909,328	47,576,710	143,486,038	141,934,079
Total noncurrent assets	100,517,309	48,391,278	148,908,587	147,134,915
	$113,794,783	$ 58,947,608	$172,742,391	$170,607,423
LIABILITIES AND NET ASSETS				
Current liabilities:				
Revenue bonds payable, current portion	$ 350,000	$ 575,000	$ 925,000	$ 875,000
Notes payable to related party, current portion	-	1,335,510	1,335,510	1,147,341
Contractors payable	3,157,373	60,290	3,217,663	3,893,296
Trade and other payable	267,223	4,996	272,219	311,027
Due to related parties	868,002	106,454	974,456	861,009
Due to Airport Division	-	36,628	36,628	103,126
Accrued expenses	295,453	333,149	628,602	846,532
Deferred income	56,882	-	56,882	25,886
Compensated absences, current portion	281,716	30,215	311,931	314,367
Total current liabilities	5,276,649	2,482,242	7,758,891	8,377,584
Compensated absences, net of current portion	339,795	42,626	382,421	433,490
Revenue bonds payable	17,914,047	29,215,631	47,129,678	47,947,827
Notes payable to related party	-	6,755,912	6,755,912	7,393,474
Total liabilities	23,530,491	38,496,411	62,026,902	64,152,375
Commitment and contingencies				
Net assets:				
Investment in capital assets, net of related debt	78,264,748	10,546,599	88,811,347	86,099,239
Restricted	2,484,239	9,385,025	11,869,264	11,393,153
Unrestricted	9,515,305	519,573	10,034,878	8,962,656
Total net assets	90,264,292	20,451,197	110,715,489	106,455,048
	$113,794,783	$ 58,947,608	$172,742,391	$170,607,423

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2004 and 2003
(With Combining Divisional Information for the year ended September 30, 2004)

	Airport Division	Seaport Division	2004	2003 (As Restated)
Operating revenues:				
Aviation fees	$ 7,146,501	$ -	$ 7,146,501	$ 6,202,097
Seaport fees	-	4,983,113	4,983,113	4,711,365
Concession and lease income	3,909,613	794,279	4,703,892	4,264,087
Other	1,313,341	210,011	1,523,352	1,213,731
Total operating revenues	12,369,455	5,987,403	18,356,858	16,391,280
Operating expenses:				
Depreciation and amortization	5,700,500	2,445,864	8,146,364	8,044,892
Salaries and wages	5,316,088	597,941	5,914,029	5,921,602
Employee benefits	1,545,555	173,955	1,719,510	1,801,613
Insurance	780,589	501,795	1,282,384	1,198,969
Repairs and maintenance	492,675	76,843	569,518	307,044
Professional fees	399,261	94,863	494,124	367,066
Supplies	445,429	20,374	465,803	332,658
Bad debts	220,000	210,662	430,662	-
Contractual services	355,322	45,926	401,248	213,721
Utilities	354,269	43,862	398,131	348,008
Travel	188,283	31,612	219,895	165,009
Promotion and advertising	62,606	1,205	63,811	27,514
Training	7,398	-	7,398	1,859
Other	370,635	146,825	517,460	361,403
Total operating expenses	16,238,610	4,391,727	20,630,337	19,091,358
Operating (loss) income	(3,869,155)	1,595,676	(2,273,479)	(2,700,078)
Non-operating revenues (expenses):				
Interest income	38,441	31,206	69,647	129,530
Interest expense	(859,998)	(2,305,541)	(3,165,539)	(3,140,892)
Amortization of bond issue cost	(24,459)	(32,934)	(57,393)	(57,393)
Total non-operating revenues (expenses), net	(846,016)	(2,307,269)	(3,153,285)	(3,068,755)
Loss before capital contributions	(4,715,171)	(711,593)	(5,426,764)	(5,768,833)
Capital contributions	9,573,071	114,134	9,687,205	10,553,179
Change in net assets	4,857,900	(597,459)	4,260,441	4,784,346
Net assets - beginning	85,406,392	21,048,656	106,455,048	101,670,702
Net assets - ending	$ 90,264,292	$ 20,451,197	$110,715,489	$106,455,048

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2004 and 2003
(With Combining Divisional Information for the year ended September 30, 2004)

	Airport Division	Seaport Division	2004	2003
Cash flows from operating activities:				
Cash received from customers	$ 11,774,377	$ 5,711,471	$ 17,485,848	$ 16,181,100
Cash payments to suppliers for goods and services	(3,374,469)	(958,676)	(4,333,145)	(3,161,345)
Cash payments to employees for services	(7,125,354)	(771,896)	(7,897,250)	(7,716,979)
Net cash provided by operating activities	1,274,554	3,980,899	5,255,453	5,302,776
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(9,919,357)	(81,139)	(10,000,496)	(10,568,052)
Capital contributions, net	8,460,900	51,436	8,512,336	11,650,409
Principal paid on revenue bond maturities	(330,000)	(545,000)	(875,000)	(820,000)
Payments on note payable to related party	-	(449,393)	(449,393)	(525,833)
Interest paid on revenue bonds and note payable to related party	(1,156,875)	(2,275,273)	(3,432,148)	(3,489,202)
Net cash used for capital and related financing acti	(2,945,332)	(3,299,369)	(6,244,701)	(3,752,678)
Cash flows from investing activities:				
Net investment liquidations, unrestricted	985,643	21,200	1,006,843	1,107,832
Net investment liquidation (purchases), restricted	369,985	(846,096)	(476,111)	(521,898)
Interest income	38,441	31,206	69,647	129,530
Net cash provided by (used for) investing activities	1,394,069	(793,690)	600,379	715,464
Net (decrease) increase in cash and cash equivalents	(276,709)	(112,160)	(388,869)	2,265,562
Cash and cash equivalents at beginning of year	4,420,458	648,885	5,069,343	2,803,781
Cash and cash equivalents at end of year	$ 4,143,749	$ 536,725	$ 4,680,474	$ 5,069,343
Reconciliation of operating (loss) income to net cash provided by operating activities:				
Operating (loss) income	$ (3,869,155)	$ 1,595,676	$ (2,273,479)	$ (2,700,078)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation and amortization	5,700,500	2,445,864	8,146,364	8,044,892
Bad debts	220,000	210,662	430,662	-
(Increase) decrease in assets:				
Receivables - operations	(412,479)	(269,829)	(682,308)	317,418
Interdivisional accounts	66,498	(66,498)	-	-
Receivables - officers and employees	(897)	-	(897)	1,762
Prepaid expenses	86,419	(209)	86,210	(62,864)
Related parties	(279,196)	(6,103)	(285,299)	(527,671)
Increase (decrease) in liabilities:				
Accounts payable - trade and other	(40,996)	2,188	(38,808)	73,109
Related parties	94,413	19,034	113,447	106,264
Accrued expenses	(267,853)	49,923	(217,930)	42,969
Deferred income	30,996	-	30,996	4,228
Compensated absences	(53,696)	191	(53,505)	2,747
Net cash provided by operating activities	$ 1,274,554	$ 3,980,899	$ 5,255,453	$ 5,302,776

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2004

COMMONWEALTH PORTS AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

(1) Organization

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

(2) Summary of Significant Accounting Policies

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

Basis of Accounting

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

Budgets

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

Cash and Cash Equivalents

For the purposes of the statements of net assets and the statements of cash flows, cash and cash equivalents is defined as cash held in demand deposits, savings and time certificates of deposit with a maturity date within three months of the date acquired. As of September 30, 2004 and 2003, total cash and cash equivalents were $4,680,474 and $5,069,343, respectively, and the corresponding bank balance was $4,488,501 and $4,899,905, respectively. All of the bank balance amount is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of $100,000 were FDIC insured as of September 30, 2004 and 2003. CNMI law does not require component unit funds to be collateralized and thus CPA's funds, in excess of FDIC insurance, are uncollateralized.

(2) Summary of Significant Accounting Policies, Continued

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. During the years ended September 30, 2004 and 2003, $373,460 and $450,988, respectively, of eligible interest expense was capitalized.

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.

Due From/To Airport/Seaport Divisions

Due from/to balances between the Airport and Seaport Divisions, which result from transactions made during the course of operations, are normally liquidated within thirty days and are considered to be current receivables and liabilities.

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 collectibility of these accounts and prior collection experience. The allowance is established through an allowance for doubtful accounts charged to bad debts expense.

Capital Assets

Property, plant and equipment and construction-in-progress are recorded at cost. Depreciation is provided by using the straight-line method over the estimated useful lives of the assets.

Deferred Bond Issue Cost

Bond issue costs are treated as a deferred asset and are amortized over the life of the related bond issue.

Retirement Plan

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

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

Plan members are required to contribute 6.5% and 9.0% of their annual covered salary for Class I and Class II members, respectively, and CPA is required to contribute at an actuarially determined rate. The current rate is 26.4% of annual covered payroll. The contribution requirements of plan members and CPA are established and may be amended by the Fund's Board of Trustees. CPA's contributions to the Fund for the years ended September 30, 2004, 2003 and 2002 were $1,424,737, $1,475,353, and $1,613,952, respectively, equal to the required contributions for each year.

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, 2004 and 2003, is $694,352 and $747,857, respectively.

New Accounting Standards

For fiscal year 2005, CPA will be implementing GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. As of September 30, 2004, CPA has not evaluated the financial statement impact of GASB Statement Nos. 40 and 42.

Estimates

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

Reclassification

Certain 2003 balances in the accompanying financial statements have been reclassified to conform to the 2004 presentation.

(3) Receivables From Federal Grantor Agencies

Receivables from federal grantor agencies as of September 30, 2004 and 2003, are as follows:

	2004	2003
U.S. Department of Transportation Federal Aviation Administration		
Saipan International Airport, AIP Project No. 3-69-0002-31	$ 53,006	$ 17,443
Saipan International Airport, AIP Project No. 3-69-0002-32	119,155	20,795
Saipan International Airport, AIP Project No. 3-69-0002-33/46	567,452	155,572
Saipan International Airport, AIP Project No. 3-69-0002-35	218,695	18,104
Saipan International Airport, AIP Project No. 3-69-0002-37	4,500	-
Saipan International Airport, AIP Project No. 3-69-0002-38	5,166	20,133
Saipan International Airport, AIP Project No. 3-69-0002-39	88,207	140,976
Saipan International Airport, AIP Project No. 3-69-0002-41	7,500	-
Saipan International Airport, AIP Project No. 3-69-0002-42	32,888	-
Saipan International Airport, AIP Project No. 3-69-0002-43/29	56,766	-
Saipan International Airport, AIP Project No. 3-69-0002-44	30,785	-
Saipan International Airport, AIP Project No. 3-69-0002-45	8,698	6,856
Rota International Airport, AIP Project No. 3-69-0003-13	7,500	(40,811)
Rota International Airport, AIP Project No. 3-69-0003-14	14,899	10,687
Rota International Airport, AIP Project No. 3-69-0003-15	36,603	3,210
Rota International Airport, AIP Project No. 3-69-0003-16	2,500	-
Rota International Airport, AIP Project No. 3-69-0003-17	33,168	-
Tinian International Airport, AIP Project No. 3-69-0011-06/15	68,563	77,659
Tinian International Airport, AIP Project No. 3-69-0011-14	32,317	-
	1,388,368	430,624
Transportation Security Administration		
Security reimbursement	33,972	84,393
United States Coast Guard		
Memorandum of Agreement	70,459	-
U.S. Department of the Interior		
Tinian Runway Project	1,628,130	1,606,082
Federal Emergency Management Agency		
Public Assistance Grant	175,039	-
	$ 3,295,968	$ 2,121,099

(3) Receivables From Federal Grantor Agencies, Continued

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.

(4) Investments

Unrestricted investments are carried at fair value. These investments are held in fixed income securities funds, U.S. Government securities, U.S. Government money market funds, time certificates of deposit and cash management funds as of September 30, 2004 and 2003.

Investments restricted for construction and debt service purposes represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds both issued on March 26, 1998, deposited with the Trustee. The Trustee is a commercial lending institution, and the securities are held in the name of CPA.

	2004	2003
Airport Investments		
Bond Reserve Fund	$ 1,626,005	$ 1,624,210
Construction Fund	647,408	1,037,589
Bond Fund	181,227	137,516
Maintenance and Operation	29,599	54,909
	$ 2,484,239	$ 2,854,224
Seaport Investments		
Bond Reserve Fund	$ 2,691,759	$ 2,683,739
Supplemental Reserve Fund	6,202,896	5,578,761
Reimbursement Fund	5,128	5,104
Bond Fund	307,200	267,957
Maintenance and Operation	178,042	3,368
	$ 9,385,025	$ 8,538,929

At September 30, 2004 and 2003, investments held in these funds consist of cash management funds and U.S. Government money market funds. These investments are presented at fair value. Total investments of CPA are insured to $100,000 with the remaining balance being uninsured as of September 30, 2004 and 2003.

CPA's investments at fair value, as of September 30, 2004 and 2003, are summarized below:

(4) Investments, Continued

	2004	2003
Airport Division		
Short-term investments, unrestricted:		
Cash management fund	$ 922,643	$ 1,020,684
U.S. Government money market fund	529,348	1,416,950
	1,451,991	2,437,634
Investments, restricted:		
U.S. Government money market fund	2,484,239	2,854,224
Total Airport Division	$ 3,936,230	$ 5,291,858
Seaport Division		
Short-term investments, unrestricted:		
Cash management fund	$ 65,635	$ 86,835
Investments, restricted:		
U.S. Government money market fund	9,385,025	8,538,929
Total Seaport Division	$ 9,450,660	$ 8,625,764

CPA's investments are categorized as either (1) insured or registered for which the securities are held by CPA or its agent in CPA's name, (2) uninsured and unregistered for which the securities are held by the broker's or dealer's trust department or agent in CPA's name, or (3) uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in CPA's name. All of CPA's investments are classified in category (2).

(5) Accounts Receivable from Operations

CPA extends credit to organizations and individuals, substantially all of whom are located in the CNMI, Japan, the United States and Korea. CPA's accounts receivable from operations as of September 30, 2004 and 2003, are summarized below (with combining information as of September 30, 2004):

	Airport Division	Seaport Division	Totals 2004	Totals 2003
Accounts receivable	$ 2,237,652	$ 1,775,134	$ 4,012,786	$ 3,341,272
Less allowance for doubtful accounts	(384,597)	(1,346,787)	(1,731,384)	(1,311,516)
	$ 1,853,055	$ 428,347	$ 2,281,402	$ 2,029,756

(6) Capital Assets

Capital asset balances consist of the following as of September 30, 2004 and 2003:

		Airport				Seaport			
	Estimated Useful Lives	Balance October 1, 2003	Increases	Decreases	Balance September 30, 2004	Balance October 1, 2003	Increases	Decreases	Balance September 30, 2004
Assets not being depreciated:									
Construction in progress		$ 37,276,245	$ 9,385,613	$ (7,742,736)	$ 38,919,122	$ -	$ 100,999	$ (97,388)	$ 3,611
Land		-	-	-	-	464,429	-	-	464,429
Total capital assets not being depreciated		37,276,245	9,385,613	(7,742,736)	38,919,122	464,429	100,999	(97,388)	468,040
Capital assets being depreciated:									
Runway and improvements	20 years	38,377,087	2,224,228	-	40,601,315	-	-	-	-
Other improvements	3 - 10 years	6,238,172	3,509,376	-	9,747,548	2,790,481	109,608	(6,917)	2,893,172
Terminal facilities	20 years	62,029,814	1,276,379	-	63,306,193	-	-	-	-
Terminal equipment	2 - 10 years	8,665,351	18,501	-	8,683,852	-	-	-	-
Harbor facilities	20 years	-	-	-	-	61,826,127	-	-	61,826,127
Grounds maintenance and shop equipment	2 - 5 years	442,841	4,732	-	447,573	62,729	1,170	(4,381)	59,518
Fire and rescue equipment	2 - 8 years	2,448,255	879,266	-	3,327,521	-	-	-	-
Office furniture and fixtures	2 - 10 years	694,469	18,135	-	712,604	116,039	8,797	(20,992)	103,844
General transportation	3 - 5 years	768,107	-	(77,516)	690,591	45,871	-	-	45,871
Other	3 - 5 years	-	-	-	-	604,706	-	(2,777)	601,929
		119,664,096	7,930,617	(77,516)	127,517,197	65,445,953	119,575	(35,067)	65,530,461
Less accumulated depreciation		(64,904,007)	(5,700,500)	77,516	(70,526,991)	(16,012,637)	(2,445,864)	36,710	(18,421,791)
Total capital assets being depreciated		54,760,089	2,230,117	-	56,990,206	49,433,316	(2,326,289)	1,643	47,108,670
Total capital assets, net		$ 92,036,334	$ 11,615,730	$ (7,742,736)	$ 95,909,328	$ 49,897,745	$ (2,225,290)	$ (95,745)	$ 47,576,710

		Airport				Seaport			
	Estimated Useful Lives	Balance October 1, 2002	Increases	Decreases	Balance September 30, 2003	Balance October 1, 2002	Increases	Decreases	Balance September 30, 2003
Assets not being depreciated:									
Construction in progress		$ 26,644,444	$ 12,113,700	$ (1,481,899)	$ 37,276,245	$ 651,543	$ 43,950	$ (695,493)	$ -
Land		-	-	-	-	464,429	-	-	464,429
Total capital assets not being depreciated		26,644,444	12,113,700	(1,481,899)	37,276,245	1,115,972	43,950	(695,493)	464,429
Capital assets being depreciated:									
Runway and improvements	20 years	38,345,832	31,255	-	38,377,087	-	-	-	-
Other improvements	3 - 10 years	5,614,910	623,262	-	6,238,172	2,072,854	717,627	-	2,790,481
Terminal facilities	20 years	61,642,303	387,511	-	62,029,814	-	-	-	-
Terminal equipment	2 - 10 years	8,638,083	27,268	-	8,665,351	-	-	-	-
Harbor facilities	20 years	-	-	-	-	61,810,458	15,669	-	61,826,127
Grounds maintenance and shop equipment	2 - 5 years	436,625	6,216	-	442,841	62,729	-	-	62,729
Fire and rescue equipment	2 - 8 years	2,433,319	14,936	-	2,448,255	-	-	-	-
Office furniture and fixtures	2 - 10 years	651,934	42,535	-	694,469	109,644	6,395	-	116,039
General transportation	3 - 5 years	768,107	-	-	768,107	59,871	-	(14,000)	45,871
Other	3 - 5 years	-	-	-	-	572,725	31,981	-	604,706
		118,531,113	1,132,983	-	119,664,096	64,688,281	771,672	(14,000)	65,445,953
Less accumulated depreciation		(59,246,857)	(5,657,150)	-	(64,904,007)	(13,638,895)	(2,387,742)	14,000	(16,012,637)
Total capital assets being depreciated		59,284,256	(4,524,167)	-	54,760,089	51,049,386	(1,616,070)	-	49,433,316
Total capital assets, net		$ 85,928,700	$ 7,589,533	$ (1,481,899)	$ 92,036,334	$ 52,165,358	$ (1,572,120)	$ (695,493)	$ 49,897,745

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

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

(7) Revenue Bonds Payable

Airport

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

Interest on the bonds is payable semi-annually at 6.25% on March 15 and September 15 of each year. Revenue bonds payable as of September 30, 2004 and 2003, consist of the following:

	2004	2003
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2004 and 2028 are listed below.	$ 18,345,000	$ 18,675,000
Deferred costs of debt refunding	(80,953)	(157,536)
	18,264,047	18,517,464
Current portion	350,000	330,000
Long-term portion	$ 17,914,047	$ 18,187,464

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

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

Year ending September 30,	Principal	Interest	Total
2005	$ 350,000	$ 1,135,625	$ 1,485,625
2006	370,000	1,113,125	1,483,125
2007	395,000	1,089,219	1,484,219
2008	420,000	1,063,750	1,483,750
2009	445,000	1,036,719	1,481,719
2010 - 2014	2,675,000	4,715,781	7,390,781
2015 - 2019	3,625,000	3,739,218	7,364,218
2020 - 2024	4,910,000	2,415,625	7,325,625
2025 - 2028	5,155,000	668,908	5,823,908
	$ 18,345,000	$ 16,977,970	$ 35,322,970

(7) Revenue Bonds Payable, Continued

Airport, Continued

The 1998 Senior Series A bonds are limited obligations of CPA and, except to the extent payable from Bond proceeds, are payable solely out of CPA's revenues, assets and funds pledged under the Indenture.

The 1998 Senior Series A bonds 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%

Seaport

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

Interest on the bonds is payable semi-annually at 6.6% on March 15 and September 15 of each year. Revenue bonds payable as of September 30, 2004 and 2003, consist of the following:

	2004	2003
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2004 and 2028 are listed below.	$ 30,965,000	$ 31,510,000
Deferred costs of debt refunding	(1,174,369)	(1,204,637)
	29,790,631	30,305,363
Current portion	575,000	545,000
Long-term portion	$ 29,215,631	$ 29,760,363

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

(7) Revenue Bonds Payable, Continued

Seaport, Continued

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

Year ending September 30,	Principal	Interest	Total
2005	$ 575,000	$ 2,024,715	$ 2,599,715
2006	615,000	1,985,445	2,600,445
2007	655,000	1,943,535	2,598,535
2008	695,000	1,898,985	2,593,985
2009	740,000	1,851,630	2,591,630
2010 - 2014	4,475,000	8,434,635	12,909,635
2015 - 2019	6,100,000	6,702,630	12,802,630
2020 - 2024	8,325,000	4,340,325	12,665,325
2025 - 2028	8,785,000	1,204,665	9,989,665
	$ 30,965,000	$ 30,386,565	$ 61,351,565

Additionally, CPA has resolved to deposit $700,000 annually into the Seaport supplemental reserve fund (beginning in 2001 and ending in 2005) until $8,000,000 is deposited into such fund. At September 30, 2004 and 2003, total deposits in the Seaport supplemental reserve fund amounted to $6,202,896 and $5,578,761, respectively.

The 1998 Senior Series A bonds are limited obligations of CPA and, except to the extent payable from Bond proceeds, are payable solely out of CPA's revenues and funds pledged under the Indenture.

The 1998 Senior bonds are subject to redemption prior to their stated maturity, at the option of CPA, as a whole or in part by lot, on any date from the proceeds of available funds, the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

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, 2004.

Section 6.11 of the Airport Bond Indenture Agreement (Indenture) states that CPA shall impose, levy and collect such fees, tariffs, lease rentals, licensing fees and other fees and charges in aggregate amount with respect to each fiscal year to produce gross revenues to comply with subsections (A)(1), (A)(2), (A)(3) and (A)(4) of Section 6.11. CPA was not in compliance with Section 6.11 of the Airport bond indenture at September 30, 2003.

(7) Revenue Bonds Payable, Continued

Seaport, Continued

Section 6.11(B) of the Indenture states that if the financial statements prepared pursuant to Section 6.06(B) of the Indenture reflect that at the end of a fiscal year, net revenues are less than the amount required by Section 6.11(A) for such fiscal year or if the revenues are less than the aggregate amount of all transfers required by Section 5.02(a) through (e) for such fiscal year, CPA shall not be in default under Section 7.01 if within sixty days after the date of such financial statements or the end of the fiscal year, CPA shall employ an independent consultant to make recommendations as to a revision of the rates, fees and charges or the methods of operation of the airports. If such recommendations fail to meet the requirements of Section 6.11(a), such deficiency will constitute an event of default under Section 7.01. In accordance with Section 7.01, CPA hired an independent consultant during the year ended September 30, 2003.

(8) Notes Payable to Related Party

CPA's note payable is as follows:

	2004	2003
Promissory note due to the Commonwealth Development Authority (CDA) (a component unit of the CNMI), interest at 2.5% per annum, with maturity date of November 16, 2014. Principal and interest payments in the amount of $204,113 are due quarterly.	$ 8,091,422	$ 8,540,815
Less amounts due within one year	(1,335,510)	(1,147,341)
Long-term debt	$ 6,755,912	$ 7,393,474

On February 4, 2003, CDA's Board of Directors authorized the following deferment program for CPA's loans to CDA:

- CPA will make immediate payment of fifty percent of the amount outstanding as of February 4, 2003.
- For the remainder of Fiscal Year 2003, CPA will reduce its quarterly payments by fifty percent.
- The term of the loan will be extended to accommodate the above payment deferral.

As of September 30, 2004, an amendment to the loan agreement has not been signed by both CPA and CDA. In addition, during the year ended September 30, 2004, CPA did not meet its required last quarter payment of $204,113. Accordingly, amounts in arrears are included as current at September 30, 2004.

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

(8) Notes Payable to Related Party, Continued

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

Year ending September 30,	Principal	Interest	Total
2005	$ 1,335,510	$ 399,092	$ 1,734,602
2006	653,652	162,802	816,454
2007	670,146	146,306	816,452
2008	687,058	129,394	816,452
2009	704,396	112,056	816,452
2010 - 2014	3,797,758	284,506	4,082,264
2015	242,902	1,521	244,423
	$ 8,091,422	$ 1,235,677	$ 9,327,099

(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 from these risks have not exceeded commercial insurance coverage for the past three years.

(10) Related Party Transactions

Total related party transactions for the years ended September 30, 2004 and 2003, and the related receivable and payable balances, are as follows:

	2004			
	Revenues	Expenses	Receivables	Payables
Commonwealth Development Authority	$ -	$ 194,584	$ -	$ -
Commonwealth Utilities Corporation	-	398,131	4,015,684	9,772
CNMI Government	-	123,944	-	964,684
Northern Mariana Islands Retirement Fund	-	1,424,747	-	-
Other	12,335	-	37,066	-
	$ 12,335	$ 2,141,406	$ 4,052,750	$ 974,456

(10) Related Party Transactions, Continued

	2003			
	Revenues	Expenses	Receivables	Payables
Commonwealth Development Authority	$ -	$ 209,891	$ -	$ -
Commonwealth Utilities Corporation	-	348,008	3,736,488	20,269
CNMI Government	-	106,649	-	840,740
Northern Mariana Islands Retirement Fund	-	1,475,353	-	-
Other	11,449	-	30,963	-
	$ 11,449	$ 2,139,901	$ 3,767,451	$ 861,009

A note payable to CDA amounted to $8,091,422 and $8,540,815 at September 30, 2004 and 2003, respectively. Interest expense on this note for the years ended September 30, 2004 and 2003 amounted to $194,584 and $209,891, respectively.

On November 9, 1998, a Memorandum of Agreement (MOA) was executed between CPA and the Commonwealth Utilities Corporation (CUC) specifying terms and conditions of a Sewerline Project. It has been determined that 29.4% of the total cost of the project ($4,887,808) is attributable to CPA, with the remaining 70.6% attributable to CUC. Based on the MOA, CPA, as signatory party to the project contract, will pay for all progress payments, subject to reimbursement by CUC, for the portion of the project costs that CUC has agreed to be responsible for. An amended MOA, dated April 14, 1999, states that the project will be transferred to CUC upon completion and at that time a note receivable will evidence CUC's share of the project cost. The total cost of the project incurred amounted to $6,254,093 and $5,862,043 as of September 30, 2004 and 2003, respectively.

The total cost of the project includes liquidated damages of $125,000 at September 30, 2004 and 2003, respectively, representing CUC's share. In addition, it also includes $44,034 already billed to CUC. During the years ended September 30, 2004 and 2003, CPA allocated capitalized interest of $-0- and $111,555, respectively, to the project. The MOA does not address whether 70.6% of the total interest capitalized should be charged to CUC's overall share of the project cost. Accordingly, the amount receivable from CUC does not include capitalized interest. The project is in progress and, accordingly, 29.4% is recorded as construction in progress and 70.6% is recorded as receivable from related party, noncurrent, at September 30, 2004 and 2003. The project is expected to be completed in December 2004.

The Seaport Division recorded accounts receivable amounting to $37,066 and $30,963 at September 30, 2004 and 2003, respectively, from a company in which a Board member has interest.

(11) Commitment and Contingencies

Commitment

CPA's Airport Division leases rental car concession booths, office space, other ground space, and an electronic scanning device. The Seaport Division leases land and warehouse space. Lease terms range from one to fifteen years and in most instances contain provisions for percentage rent. Concession and lease income for the years ended September 30, 2004 and 2003, amounted to $4,703,892 and $4,264,087, respectively. Minimum future lease income is as follows:

Year ending September 30,	Minimum Lease Income Due
2005	$ 1,962,849
2006	1,256,676
2007	955,064
2008	761,758
2009	709,832
Thereafter	12,265,125
	$ 17,911,304

Contingencies

CPA participated in a federally assisted grant from the United States Department of the Interior related to the Saipan Harbor Improvement Project. Federally assisted grants can be subject to financial and compliance audits to ascertain if federal laws and guidelines have been followed. The United States Department of the Interior, Office of the Inspector General, in its audit report "Saipan Harbor Improvement Project, Commonwealth Ports Authority, Commonwealth of the Northern Mariana Islands", dated September 2003, has questioned $460,000 related to a grant from the United States Department of the Interior, Office of Insular Affairs. If these costs are ultimately denied, CPA could be charged for the necessary reimbursement to the grantor agency.

CPA incurred a combined loss before capital contributions and transfers from its two divisions of $5,426,764 during the year ended September 30, 2004. Management's plans to increase revenues and/or decrease costs are as follows:

a) Implement cost cutting measures - The Board of Directors approved and initiated the implementation of certain austerity measures in an attempt to reduce operating costs.

b) Explore non-aviation revenue generating options.

c) Implement Passenger Facility charge.

d) Explore more favorable debt service terms.

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

(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 Saipan, substantially all of which are located in the CNMI, Japan, United States 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 which is located in the CNMI.

(13) Subsequent Events

On October 15, 2004, the U.S. Department of Transportation, Federal Aviation Administration, approved CPA's application to impose a passenger facility charge (PFC) at the Saipan, Rota and Tinian airports. CPA will begin implementing the PFC on January 1, 2005.

On March 10, 2005, CPA entered into a Memorandum of Agreement (MOA) to provide Airport Improvement Program programming assistance to the governments of the Federated States of Micronesia, Republic of the Marshall Islands and the Republic of Palau.

On July 29, 2005, Japan Airlines (JAL) officially announced its suspension of flights to the CNMI effective October 4, 2005.

(14) Restatement

During the year ended September 30, 2004, CPA determined that accumulated depreciation was understated by $843,966. The effects are as follows:

	As Originally Stated	As Restated
Capital assets, net	$ 142,778,045	$ 141,934,079
Net assets, beginning	$ 102,514,668	$ 101,670,702