

COMMONWEALTH PORTS AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2005

COMMONWEALTH PORTS AUTHORITY

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED SEPTEMBER 30, 2005 AND 2004

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, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of CPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CPA's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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, 2005 and 2004, and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 22 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 Statement of Net Assets, Combining Statement of Revenues, Expenses and Changes in Net Assets and Combining Statement of Cash Flows as of and for the year ended September 30, 2005 (pages 45 through 47) are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth Ports Authority's management. The Combining Statement of Net Assets, Combining Statement of Revenues, Expenses and Changes in Net Assets and Combining Statement of Cash Flows as of and for the year ended September 30, 2005 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 December 14, 2006, 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

December 14, 2006



COMMONWEALTH PORTS AUTHORITY

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MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Commonwealth Ports Authority's (herein referred to as "the Authority") audit report presents our discussion and analysis of the Authority's financial performance during fiscal year 2005 that ended on September 30, 2005. Please read it in conjunction with the more detailed information contained within the accompanying financial statements.

The nationally recognized accounting firm of Deloitte & Touche LLC issued a clean unqualified audit opinion which states: "In our opinion, such financial statements present fairly, in all material aspects, the financial position of the Authority as of September 30, 2005 and 2004, 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 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 Authority appointed by the Governor to serve four-year terms. The Authority is a self-supporting organization and generates revenues from port users to fund operating expenses and debt service requirements.

The Authority is tasked with the responsibility to operate, maintain, and improve all airports and seaports within the CNMI. Airport and seaport facilities currently exist on the islands of Saipan, Tinian and Rota and have 160 employees on Saipan, 29 employees on Rota and 25 employees on Tinian.

The following discussion and analysis of the Authority's activities and financial performance provides an introduction to the financial statements for the fiscal year ended September 30, 2005, with selected comparative information to the fiscal years ended September 30, 2004 and 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 Authority's financial transactions and subsequent statements are prepared according to accounting principles generally accepted in the United States of America and standards mandated by the Governmental Accounting Standards Board, as applicable to governmental entities.

The 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 of the accompanying audited financial statements.

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 the Authority's assets and liabilities, with the difference between the two reported as net assets. Net assets consist of restricted net assets, unrestricted net assets and invested in capital assets, net of related debt.

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

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

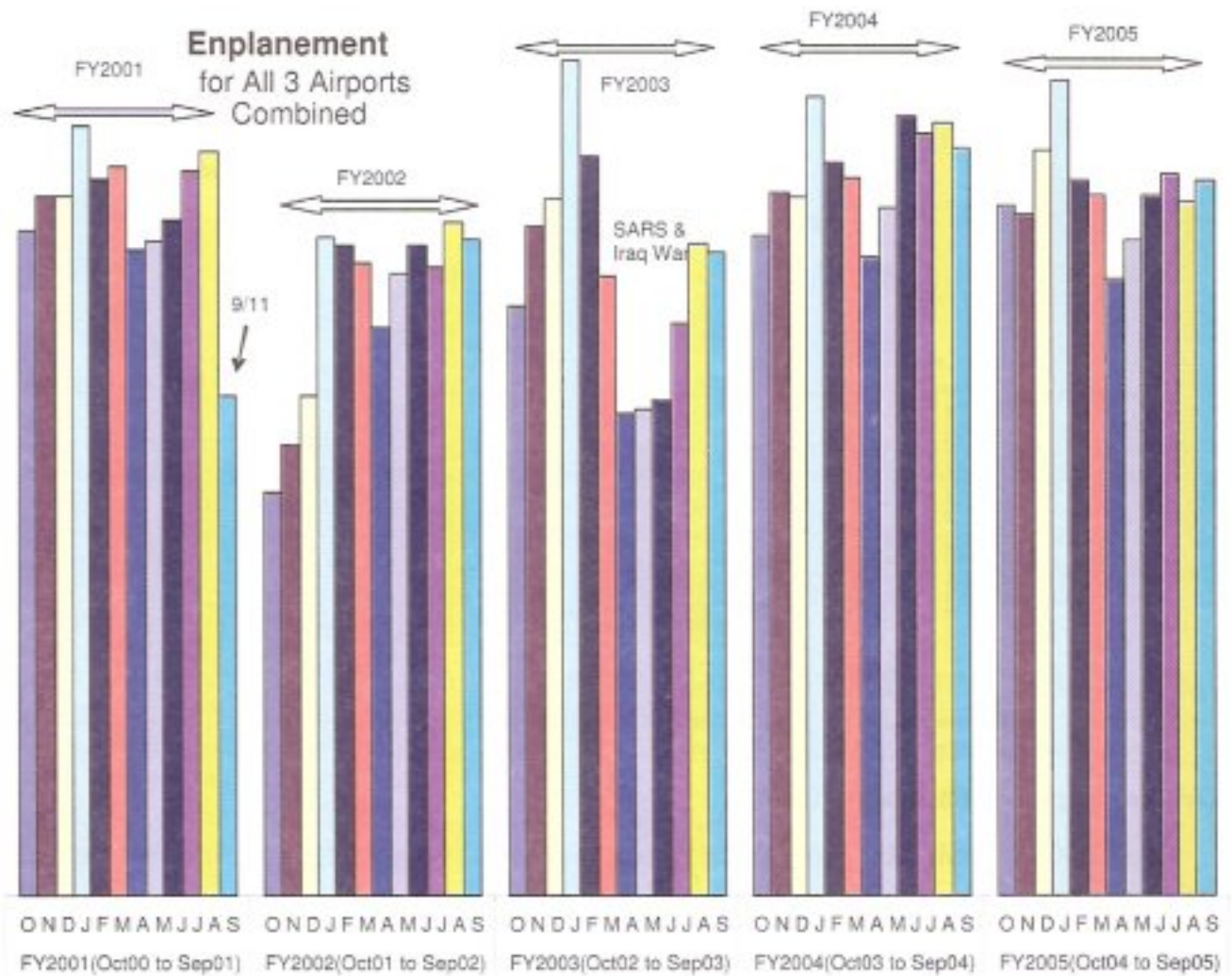
The Notes to Financial Statements provide additional information essential for a full understanding of the data provided in the financial statements.

AIRPORT DIVISION

Enplanement (Departing Passengers) at the Saipan International Airport

FY2005 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 FY2005 of 661,538 exceeded passenger levels of FY2002, which had 554,794 passengers, a period shortly after the aftermath of 9/11. Enplanement in FY2005 decreased by only 3% or 19,129 passengers compared to FY2004 due to less flights mainly from Taipei and lower load factor on flights from Guangzhou, China and the cessation of one of the domestic carriers serving between the islands.

	FY2001	FY2002 After 9/11	FY2003 SARS	FY2004	FY2005
ENPLANEMENT	643,139	554,794	585,255	680,667	661,538
<i>Change from prior year</i>		<i>(88,345)</i>	<i>30,461</i>	<i>95,412</i>	<i>(19,129)</i>
<i>% change</i>		<i>-14%</i>	<i>5%</i>	<i>16%</i>	<i>-3%</i>

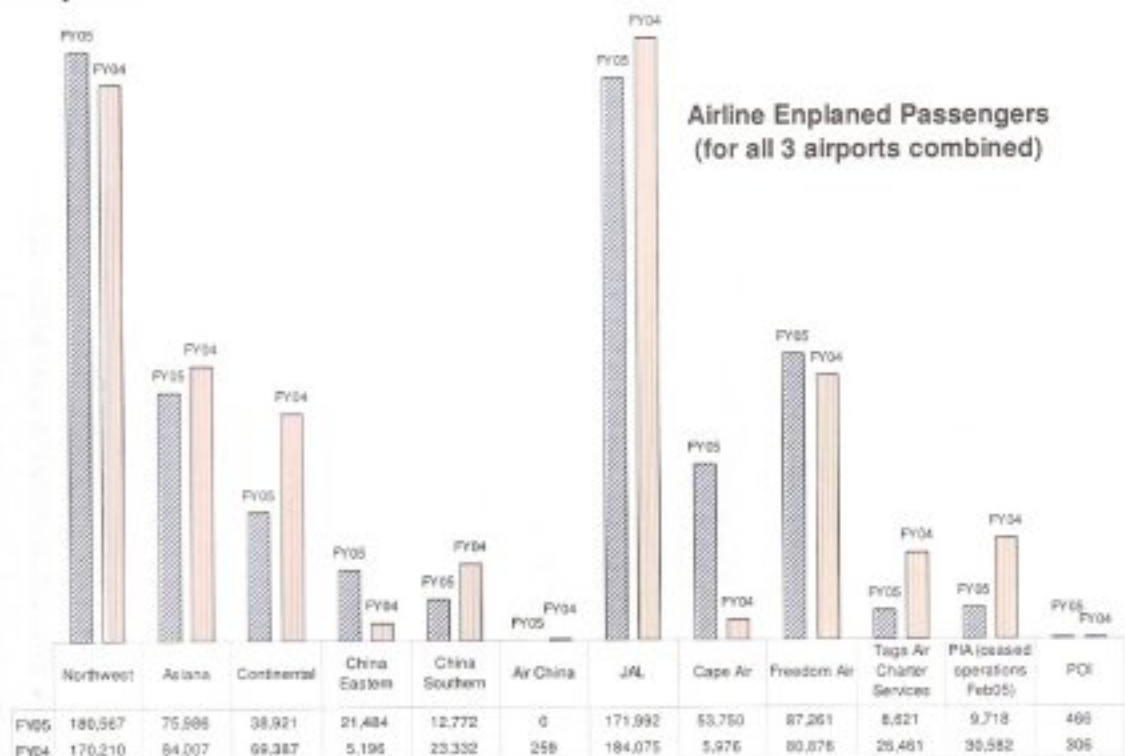


Enplanement for Each Airport

Each airport experienced a slight decrease in enplanement in FY2005 as compared to FY2004. Saipan Airport enplanement decreased by 3%; Rota Airport decreased by 4%; and Tinian Airport decreased by 4%.

	FY2004	FY2005	Change	%	FY2003
All Airports	680,667	661,538	-19,129	-3%	585,255
Saipan	609,502	593,067	-16,435	-3%	523,503
Rota	31,760	30,548	-1,212	-4%	30,325
Tinian	39,405	37,923	-1,482	-4%	31,427

Enplanement by Airline

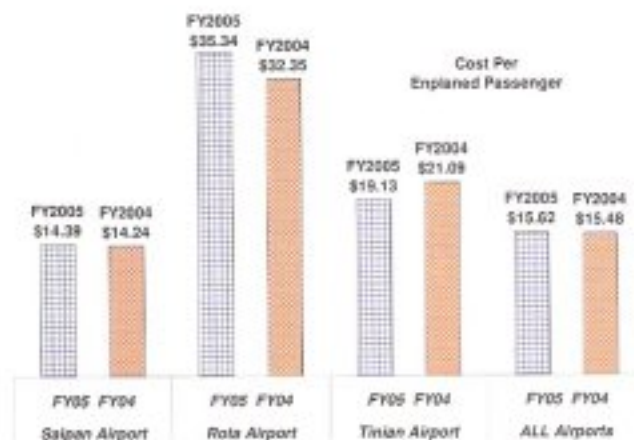


Cost per Enplaned Passenger (CEP)

FY2005 Overall CEP had a slight increase of 1% for all airports, as compared to FY2004 due to the slight reduction of passengers from reduced flights from Taipei and Guangzhou, China and the cessation of one of the domestic carriers serving between the islands.

CEP ratios in FY2005 increased 1% overall for all airports combined compared to FY2004 mainly due to cessation of flights by PIA.

- Rota's CEP increased by 9%
- Tinian's CEP decreased by 9%
- Saipan's CEP increased by 1%



Cost per Enplaned Passenger

	FY2005	FY2004	Change	%	FY2003
All Airports	\$ 15.62	\$ 15.48	\$ 0.14	1%	\$ 15.96
Saipan	\$ 14.39	\$ 14.24	\$ 0.15	1%	\$ 14.25
Rota	\$ 35.34	\$ 32.35	\$ 2.99	9%	\$ 35.56
Tinian	\$ 19.13	\$ 21.09	\$ (1.96)	-9%	\$ 25.52

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 FY2005 for the Airport Division exceeded its liabilities by \$97.5 million as of September 30, 2005, which represents an 8% increase as compared to September 30, 2004.

Airport Division	FY2005 Audited	FY2004 Audited	Change	%	FY2003 Audited
Total assets	\$ <u>121,172,974</u>	\$ <u>113,794,783</u>	\$ <u>7,378,191</u>	6%	\$ <u>110,146,759</u>
Total liabilities	\$ 23,695,319	\$ 23,530,491	\$ 164,828	1%	\$ 24,740,367
Total net assets	<u>97,477,655</u>	<u>90,264,292</u>	<u>7,213,363</u>	8%	<u>85,406,392</u>
Total liabilities and net assets	\$ <u>121,172,974</u>	\$ <u>113,794,783</u>	\$ <u>7,378,191</u>	6%	\$ <u>110,146,759</u>

The largest portion of the Airport Division's FY2005 net assets of \$97.5 million is comprised of \$83.6 million investment or 86% 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 of \$3 million are the Authority's net assets with special restrictions imposed by bondholder covenants and Federal grant regulations. The remaining unrestricted net assets of \$10.9 million or 11% of the Authority's net assets are primarily used to meet any of the Authority's ongoing obligations.

Airport Division	FY2005 Audited	FY2004 Audited	Change	%	FY2003 Audited
Current assets	\$ 11,891,151	\$ 10,793,235	\$ 1,097,916	10%	\$ 10,902,957
Restricted assets	2,957,086	2,484,239	472,847	19%	2,854,224
Non-current assets	<u>106,324,737</u>	<u>100,517,309</u>	<u>5,807,428</u>	6%	<u>96,389,578</u>
Total assets	\$ <u>121,172,974</u>	\$ <u>113,794,783</u>	\$ <u>7,378,191</u>	6%	\$ <u>110,146,759</u>
Current liabilities	\$ 5,738,415	\$ 5,276,649	\$ 461,766	9%	\$ 6,161,776
Long-term liabilities	<u>17,956,904</u>	<u>18,253,842</u>	<u>(296,938)</u>	-2%	<u>18,578,591</u>
Total liabilities	<u>23,695,319</u>	<u>23,530,491</u>	<u>164,828</u>	1%	<u>24,740,367</u>
Invested in capital assets, net of related debt	83,660,802	78,264,748	5,396,054	7%	74,162,796
Restricted assets	2,957,086	2,484,239	472,847	19%	2,854,224
Unrestricted assets	<u>10,859,767</u>	<u>9,515,305</u>	<u>1,344,462</u>	14%	<u>8,389,372</u>
Total net assets	<u>97,477,655</u>	<u>90,264,292</u>	<u>7,213,363</u>	8%	<u>85,406,392</u>
Total liabilities and net assets	\$ <u>121,172,974</u>	\$ <u>113,794,783</u>	\$ <u>7,378,191</u>	6%	\$ <u>110,146,759</u>

FY2005 Financial Summary of Airport Division

- Operating revenue in FY 2005 increased by \$126,601 or 1% from FY2004 despite the reduction in enplaned passengers by 19,129 from the FY 2004 traffic level.
- Operations and maintenance expenses in FY 2005 also decreased by 2% or \$201,612 from the 2004 level due to reduction in personnel costs and removal of certain airlines incentive and fee discounts.

- Operating income for the Airport Division, before depreciation, increased by \$328,213 or 18% from FY2004 level due primarily to lowering of the operations and maintenance expenses.

Statement of Revenues, Expenses and Changes in Net Assets

Airport Division	FY2005 Audited	FY2004 Audited	Change	%	FY2003 Audited
Revenues from operations	\$ 12,496,056	\$ 12,369,455	\$ 126,601	1%	\$ 10,523,759
Operations and maintenance expenses	(10,336,498)	(10,538,110)	201,612	-2%	(9,339,558)
Operating income (before depreciation)	2,159,558	1,831,345	328,213	18%	1,184,201
Depreciation and amortization	(6,313,727)	(5,700,500)	(613,227)	11%	(6,501,116)
Operating loss (after depreciation)	(4,154,169)	(3,869,155)	(285,014)	7%	(5,316,915)
Non-operating revenues and expenses, net	762,397	(846,016)	1,608,413	-190%	(587,373)
Loss before capital contributions and transfers	(3,391,772)	(4,715,171)	1,323,399	-28%	(5,904,288)
Capital contributions and transfers	10,605,135	9,573,071	1,032,064	11%	10,546,285
Changes in net assets	\$ 7,213,363	\$ 4,857,900	\$ 2,355,463	48%	\$ 4,641,997
Net assets reconciliation:					
Net assets - beginning	\$ 90,264,292	\$ 85,406,392	\$ 4,857,900	6%	\$ 80,764,395
Changes in net assets	7,213,363	4,857,900	2,355,463	48%	4,641,997
Net assets - ending	\$ 97,477,655	\$ 90,264,292	\$ 7,213,363	8%	\$ 85,406,392
Cost per Enplanement	\$ 15.62	\$ 15.48	\$ 0.14	1%	\$ 15.96
Enplanement or Departures	661,538	680,667	(19,129)	-3%	585,255
Deplanement or Arrivals	646,728	685,986	(39,258)	-6%	585,333
Landing Weight (tons)	570,301	614,078	(43,777)	-7%	590,054
Enplaned Cargo (tons)	6,830	9,342	(2,512)	-27%	7,938
Deplaned Cargo (tons)	7,605	9,146	(1,541)	-17%	7,097

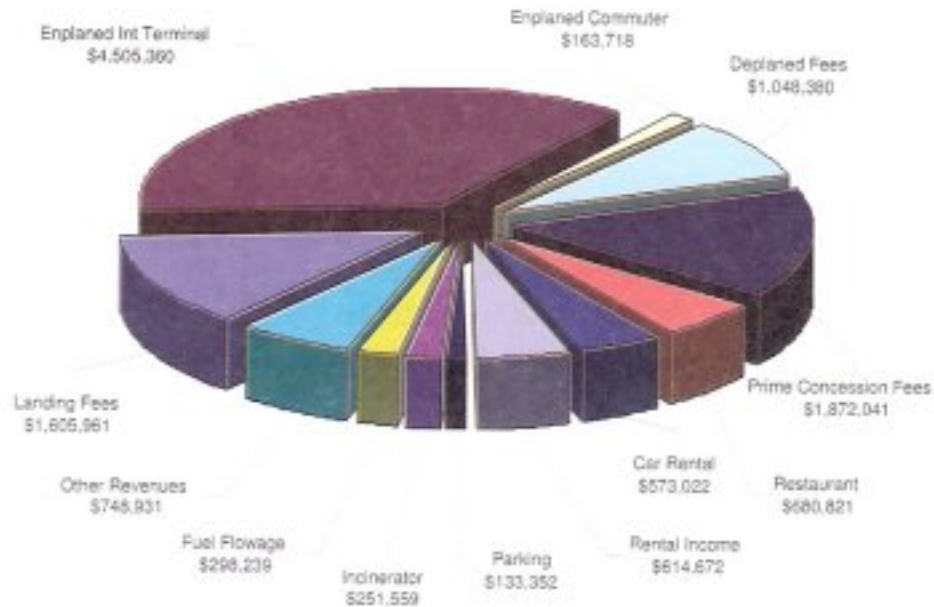
FY2005 Airport Revenues

Enplaned International Passenger Fees of \$4.7 million at the Int. Terminal are 38% of the total revenue comprising the largest portion. Duty Free concession fees and landing fees are 15% and 13% of the revenues, respectively. Incentive discounts at a cost of 2% of total revenues were provided to signatory airlines for new and additional flights from new markets as well as to increase load factors on existing flights to the CNMI.

Airport Revenues	FY2005	% of Total	FY2004	% of Total	FY2003
Enplaned international passenger fees	\$ 4,740,948	38%	\$ 4,441,448	36%	\$ 3,349,324
Deplaned passenger fees	1,112,044	9%	1,171,891	9%	1,023,724
Enplanement fees from commuter	163,718	1%	582,238	5%	495,122
Aircraft landing fees	1,605,961	13%	1,718,896	14%	1,625,860
Airline incentive fee discounts	(299,252)	-2%	(767,972)	-6%	(291,933)
Prime concession fees	1,872,041	15%	2,027,078	16%	1,774,958
Restaurant concession fees	680,821	5%	700,754	6%	615,035
Rental income	614,672	5%	616,498	5%	541,603
Car rental concession fees	573,022	5%	565,283	5%	488,163
Public parking fees	133,352	1%	124,669	1%	132,514
Incinerator service fees	251,559	2%	280,779	2%	223,396
Aviation fuel flowage fees	298,239	2%	287,266	2%	231,195
Other revenues	748,931	6%	620,627	5%	314,798
Total Airport Revenues	\$ 12,496,056	100%	\$ 12,369,455	100%	\$ 10,523,759

The following chart shows the major airport revenue sources and the dollar amounts for the fiscal year ended September 30, 2005.

FY2005 Airport Revenues



FY2005/2004 Airport Revenues - Comparative

Enplaned International Passenger Fees increased by 7% over FY 2004 level mainly due to "re-shifting" of most commuter terminal passengers to the international terminal facility from the terminal for security screening measures. In the past, these passengers would depart from the commuter terminal facility on domestic flights to the islands of Rota and Guam. As a result of the "re-shifting" from the commuter terminal, enplanement fees from the Commuter Terminal dropped drastically by 72%. In the overall, 2005 Aviation Revenue increased by \$176,918, or 2 % over the prior year.

Concession Revenue also experienced a decreased of 4% due to slight decrease in international passenger arrivals and less spending at the airport duty free store by visitors returning to Japan, Korea and China. Income from other airport revenue, on the other hand, realized an overall growth of 9% from the previous year from miscellaneous sources of income.

The overall change of airport revenue in FY 2005 is flat at 1% increase over FY 2004.

Airport Revenue	2005	2004	Change	% Change	2003
Enplaned international passenger fees	\$ 4,740,948	\$ 4,441,448	\$ 299,500	7%	\$ 3,349,324
Deplaned passenger fees	1,112,044	1,171,891	(59,847)	-5%	1,023,724
Enplanement fees from commuter	163,718	582,238	(418,520)	-72%	495,122
Aircraft landing fees	1,605,961	1,718,896	(112,935)	-7%	1,625,860
Airline incentive fee discounts	<u>(299,252)</u>	<u>(767,972)</u>	<u>468,720</u>	<u>-61%</u>	<u>(291,933)</u>
AVIATION REVENUE	<u>7,323,419</u>	<u>7,146,501</u>	<u>176,918</u>	2%	<u>6,202,097</u>
Prime concession fees	1,872,041	2,027,078	(155,037)	-8%	1,774,958
Restaurant concession fees	680,821	700,754	(19,933)	-3%	615,035
Rental income	614,672	616,498	(1,826)	0%	541,603
Car rental concession fees	<u>573,022</u>	<u>565,283</u>	<u>7,739</u>	<u>1%</u>	<u>488,163</u>
CONCESSION AND LEASE REVENUE	<u>3,740,556</u>	<u>3,909,613</u>	<u>(169,057)</u>	-4%	<u>3,419,759</u>
Public parking fees	133,352	124,669	8,683	7%	132,514
Incinerator service fees	251,559	280,779	(29,220)	-10%	223,396
Aviation fuel flowage fees	298,239	287,266	10,973	4%	231,195
Other revenues	<u>748,931</u>	<u>620,627</u>	<u>128,304</u>	<u>21%</u>	<u>314,798</u>
OTHER AIRPORT REVENUE	<u>1,432,081</u>	<u>1,313,341</u>	<u>118,740</u>	9%	<u>901,903</u>
TOTAL AIRPORT REVENUE	<u>\$ 12,496,056</u>	<u>\$ 12,369,455</u>	<u>\$ 126,601</u>	1%	<u>\$ 10,523,759</u>

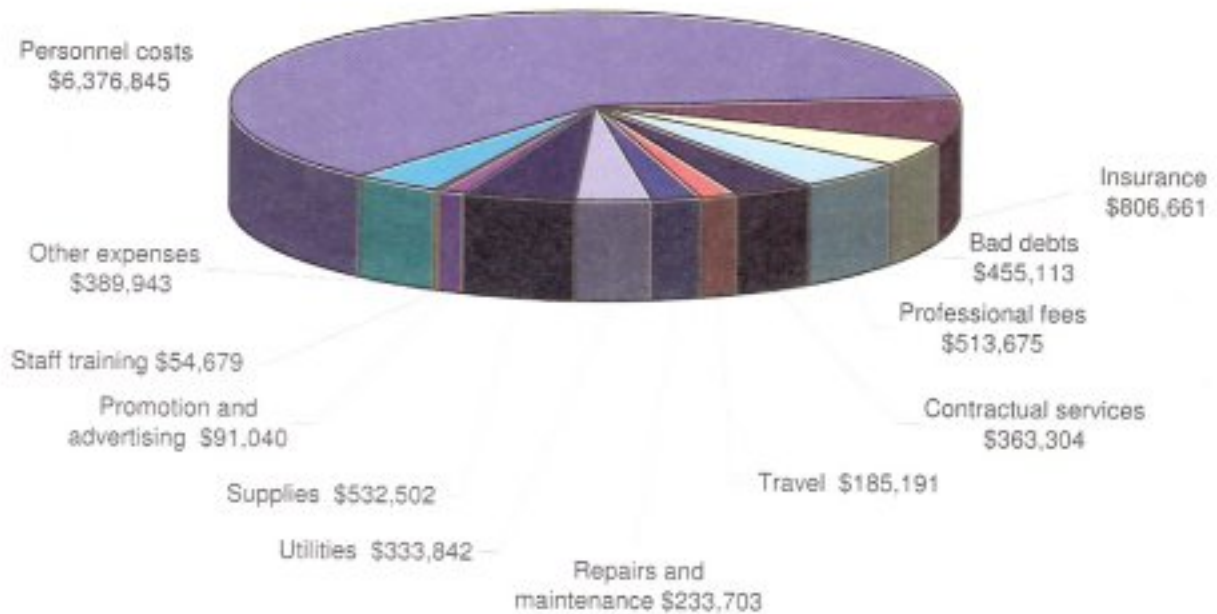
FY2005 Operating Expenses of Airport Division

Personnel costs of \$6.4 million represent the major operating expense by comprising 62% of total airport operating expenses. Insurance expense costs of \$806,661 were incurred to insure the three airport facilities on Saipan, Rota and Tinian and are 8% of the total operating expense. Bad debts and professional fees represent 4% and 5% of the expenses, respectively. Repairs and maintenance is \$233,703 or 2% of the total operating expense. Most travel performed for FAA projects are reimbursable from the FAA grants. Supplies are at 5% of operating expenses.

Airport Expenses	FY2005	% of Total	FY2004	% of Total	FY2003
Personnel costs	\$ 6,376,845	62%	\$ 6,861,643	65%	\$ 6,864,712
Insurance	806,661	8%	780,589	7%	702,629
Bad debts	455,113	4%	220,000	2%	-
Professional fees	513,675	5%	399,261	4%	240,657
Contractual services	363,304	3%	355,322	3%	178,671
Travel	185,191	2%	188,283	2%	138,326
Repairs and maintenance	233,703	2%	492,675	5%	224,512
Utilities	333,842	3%	354,269	3%	306,427
Supplies	532,502	5%	445,429	4%	319,069
Promotion and advertising	91,040	1%	62,606	1%	21,784
Staff training	54,679	1%	7,398	0%	1,859
Other expenses	<u>389,943</u>	<u>4%</u>	<u>370,635</u>	<u>4%</u>	<u>340,912</u>
Total Airport Expenses	<u>\$ 10,336,498</u>	100%	<u>\$ 10,538,110</u>	100%	<u>\$ 9,339,558</u>

The following chart shows the major expense amounts for the fiscal year ended September 30, 2005.

FY 2005 Airport Operating Expenses



Personnel costs in FY 2005 showed significant reduction over prior year by 7% or \$484,798 in savings due to continued cost containment measures exercised during entire period of 2005. The operations and maintenance expenses, however, increased by \$283,186 or 8% over 2004 level due to a combination of necessary expenses for operations involving mainly in professional fees, supplies and materials, bad debts, promotions and staff training. Nevertheless, overall operating expenses of FY 2005 declined by 2% or \$201,612 (before depreciation) from FY2004 due to austerity measures applied by management in areas it was able to apply.

All Airports	FY2005 Audited	FY2004 Audited	Change	%	FY2003 Audited
Operating expenses					
Personnel costs	\$ 6,376,845	\$ 6,861,643	\$ (484,798)	-7%	\$ 6,864,712
Maintenance and operating expenses	<u>3,959,653</u>	<u>3,676,467</u>	<u>283,186</u>	8%	<u>2,474,846</u>
Airport operating expenses before depreciation	10,336,498	10,538,110	(201,612)	2%	9,339,558
Depreciation	<u>6,313,727</u>	<u>5,700,500</u>	<u>613,227</u>	11%	<u>5,657,150</u>
Total operating expenses after depreciation	\$ <u>16,650,225</u>	\$ <u>16,238,610</u>	\$ <u>411,615</u>	3%	\$ <u>14,996,708</u>

All Airports	FY2005 Audited	FY2004 Audited	Change	%	FY2003 Audited
Personnel operating costs					
Salaries	\$ 4,939,003	\$ 5,316,088	\$ (377,085)	-7%	\$ 5,266,154
Employee benefits	<u>1,437,842</u>	<u>1,545,555</u>	<u>(107,713)</u>	-7%	<u>1,598,558</u>
Total personnel costs	<u>6,376,845</u>	<u>6,861,643</u>	<u>(484,798)</u>	-7%	<u>6,864,712</u>
Non-personnel operating expenses					
Insurance	806,661	780,589	26,072	3%	702,629
Supplies	532,502	445,429	87,073	20%	319,069
Professional fees	513,675	399,261	114,414	29%	240,657
Bad debts	455,113	220,000	235,113	107%	-
Utilities	333,842	354,269	(20,427)	-6%	306,427
Contractual services	363,304	355,322	7,982	2%	178,671
Repairs and maintenance	233,703	492,675	(258,972)	-53%	224,512
Travel	185,191	188,283	(3,092)	-2%	138,326
Promotion and advertising	91,040	62,606	28,434	45%	21,784
Staff training	54,679	7,398	47,281	639%	1,859
Other	<u>389,943</u>	<u>370,635</u>	<u>19,308</u>	5%	<u>340,912</u>
Non-personnel operating expenses	<u>3,959,653</u>	<u>3,676,467</u>	<u>283,186</u>	8%	<u>2,474,846</u>
Airport operating expenses before depreciation	10,336,498	10,538,110	(201,612)	2%	9,339,558
Depreciation	<u>6,313,727</u>	<u>5,700,500</u>	<u>613,227</u>	11%	<u>5,657,150</u>
Total operating expenses after depreciation	<u>\$ 16,650,225</u>	<u>\$ 16,238,610</u>	<u>\$ 411,615</u>	3%	<u>\$ 14,996,708</u>

Statement of Cash Flows

The following schedule summarizes the major sources and uses of Cash and Cash Equivalents for FY2005 and FY2004.

	FY2005 Audited	FY2004 Audited	Change	%	FY2003 Audited
Net cash provided by operating activities	\$ 2,480,889	\$ 1,274,554	\$ 1,206,335	95%	\$ 1,068,440
Net cash used for financing activities	62,995	(2,945,332)	3,008,327	-102%	(276,794)
Net cash (used for) provided by investing activities	<u>(370,820)</u>	<u>1,394,069</u>	<u>(1,764,889)</u>	-127%	<u>1,740,106</u>
Net increase (decrease) in cash and cash equivalents	2,173,064	(276,709)	2,449,773	-885%	2,531,752
Cash and cash equivalents at beginning of year	<u>5,595,740</u>	<u>4,420,458</u>	<u>1,175,282</u>	27%	<u>1,888,706</u>
Cash and cash equivalents at end of year	<u>\$ 7,768,804</u>	<u>\$ 4,143,749</u>	<u>\$ 3,625,055</u>	87%	<u>\$ 4,420,458</u>

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, 2005 are:

Bond Reserve Fund	\$ 1,655,719
Construction Fund	653,485
Bond Fund	198,789
Maintenance and Operations	<u>449,093</u>
Total	\$ <u>2,957,086</u>

Airport Bond Debt Coverage Ratio

The following schedule shows compliance in FY2005 with the bondholder debt service coverage ratio of 1.25 for both fiscal years 2005 and 2004. This ratio of 1.25 is a debt ratio required by the rate covenant of the bond indenture in order for the Authority to maintain its investment grade rating of -BBB, a rating assigned by Fitch Rating, a bond rating agency.

Airport Division - Debt Service Coverage Ratio \$20,050,000 Revenue Bonds Issued on March 26, 1998

	2003 - Audited	2004-Audited	2005-Audited
Total Revenues	\$ 10,590,344	\$ 12,407,896	\$ 13,044,696
Operating Expenses	9,339,558	10,538,110	10,336,498
Net Revenue	1,250,786	1,869,786	2,708,198
Debt Service	1,486,875	1,486,875	1,485,625
Debt Service Coverage Ratio	0.84	1.26	1.82

1998 Airport Revenue Bonds - \$20,050,000

CPA issued a \$20,050,000 tax-exempt revenue bond on March 26, 1998 to refinance its outstanding bonds for lower interest rate and finance various airport projects. 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 \$1.5 million. The long-term portion of the bond balance as of September 30, 2005 is \$17,625,000.

As stated above, this 1998 bond was partly used to refund an outstanding \$8,250,000 1987 Series B tax-exempt bonds. The bond refunding consolidated the existing bonds with new bonds to finance various airport projects and realize reduction in total future debt service payments from lower interest rate. 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.

SEAPORT DIVISION

Seaport Activities

Seaport activity in FY2005 resulted in a 5% decrease in Inbound Cargo revenue tonnage and an 17% decline in Outbound Cargo tonnage. As a result, the overall combined revenue tonnage in 2005 is 7% lower than FY 2004 cargo volume.

Inbound Cargo

Inbound cargo dropped by 5% or a reduction of 31,068 of revenue tonnage.

Decline in inbound shipment is attributed mainly due to the slow down of raw materials for the garment factories by 24% or 38,042 in revenue tons from the prior year.

Seaport Inbound Cargo by Commodity

Inbound Cargo by Commodity (Rev Tons)

Saipan Seaport	FY2005 12 Months	FY2004 12 Months	Change	%
Garment (raw materials)	123,758	161,800	(38,042)	-24%
Clothing (readymade)	1,468	1,234	234	19%
Food & beverage	101,226	100,365	861	1%
Fuel (pipeline)	209,561	201,959	7,602	4%
Fuel (containers)	10,352	12,241	(1,889)	-15%
Cement (pipeline)	15,403	14,684	719	5%
Cement (containers)	7,399	8,188	(789)	-10%
Construction materials	26,824	25,580	1,244	5%
Vehicles & heavy equip.	28,407	27,323	1,084	4%
Other commodities	117,881	118,660	(779)	-1%
Transshipments	306	1,619	(1,313)	-81%
Total	642,585	673,653	(31,068)	-5%

Inbound Commodities Cargo by Month (Rev Tons)

Saipan Seaport	FY2005 12 Months	FY2004 12 Months	Change	%
October	49,688	68,530	(18,842)	-27%
November	55,388	52,844	2,544	5%
December	69,594	59,335	10,259	17%
January	49,081	54,294	(5,213)	-10%
February	57,418	54,772	2,646	5%
March	44,540	45,299	(759)	-2%
April	55,068	41,660	13,408	32%
May	50,717	51,447	(730)	-1%
June	49,577	68,157	(18,580)	-27%
July	49,825	52,872	(3,047)	-6%
August	63,937	65,853	(1,916)	-3%
September	47,752	58,590	(10,838)	-18%
12 Months	642,585	673,653	(31,068)	-5%

Outbound Cargo

2005 outbound cargo also declined by 17% or a minus 25,709 revenue tonnage as compared to prior year.

Finished clothing/apparel from local garment factories accounted for the 17% of the decline or 19,094 in revenue tonnage. Raw garment fabric cargo contributed an additional 35% reduction (minus 6,874 revenue tons) in outbound cargo.

Seaport Outbound Cargo by Commodity**Outbound Cargo by Commodity (Rev Tons)**

Saipan Seaport	FY2005 12 Months	FY2004 12 Months	Change	%
Garment (fabric)	12,685	19,559	(6,874)	-35%
Clothing (finished)	95,289	114,383	(19,094)	-17%
Food & beverage	845	1,570	(725)	-46%
Fuel (container & breakbulk)	520	415	105	25%
Cement (container & breakbulk)	551	-	551	0%
Construction materials	230	1,334	(1,104)	-83%
Vehicles & heavy equip.	2,130	1,858	272	15%
Other commodities	12,572	11,412	1,160	10%
Total	124,822	150,531	(25,709)	-17%

Outbound Commodities Cargo by Month (Rev Tons)

Saipan Seaport	FY2005 12 Months	FY2004 12 Months	Change	%
October	10,656	11,313	(657)	-6%
November	11,812	12,328	(516)	-4%
December	14,286	14,191	95	1%
January	11,642	11,628	14	0%
February	8,417	12,164	(3,747)	-31%
March	10,255	12,291	(2,036)	-17%
April	8,087	9,792	(1,705)	-17%
May	8,975	13,106	(4,131)	-32%
June	9,562	11,966	(2,404)	-20%
July	9,771	13,274	(3,503)	-26%
August	12,156	15,426	(3,270)	-21%
September	9,203	13,052	(3,849)	-29%
12 Months	124,822	150,531	(25,709)	-17%

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 FY2005 exceeded liabilities by \$21.2 million, which represents a 4% or \$719,315 increase as compared to FY 2004 mainly due to the application of depreciation.

Seaport Division	FY2005 Audited	FY2004 Audited	Change	%	FY2003 Audited
Total assets	\$ 65,422,804	\$ 58,947,608	\$ 6,475,196	11%	\$ 60,460,664
Total liabilities	\$ 44,252,292	\$ 38,496,411	\$ 5,755,881	15%	\$ 39,412,008
Total net assets	<u>21,170,512</u>	<u>20,451,197</u>	<u>719,315</u>	4%	<u>21,048,656</u>
Total liabilities and net assets	\$ 65,422,804	\$ 58,947,608	\$ 6,475,196	11%	\$ 60,460,664

The largest portion of the Seaport Division's FY2005 net assets is comprised of \$17.7 million or 83% in restricted assets as shown in the schedule below. Restricted assets have restrictions imposed by bondholder covenants. The remaining unrestricted net assets in the amount of \$902,546 are primarily used to meet any of the ongoing obligations for the Seaport Division.

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.

Seaport Division	FY2005 Audited	FY2004 Audited	Change	%	FY2003 Audited
Current assets	\$ 1,521,145	\$ 1,171,305	\$ 349,840	30%	\$ 1,176,398
Restricted assets	17,670,630	9,385,025	8,285,605	88%	8,538,929
Non-current assets	<u>46,231,029</u>	<u>48,391,278</u>	<u>(2,160,249)</u>	-4%	<u>50,745,337</u>
Total assets	\$ <u>65,422,804</u>	\$ <u>58,947,608</u>	\$ <u>6,475,196</u>	11%	\$ <u>60,460,664</u>
Current liabilities	\$ 2,375,164	\$ 2,482,242	\$ (107,078)	-4%	\$ 2,215,808
Long-term liabilities	<u>41,877,128</u>	<u>36,014,169</u>	<u>5,862,959</u>	16%	<u>37,196,200</u>
Total liabilities	<u>44,252,292</u>	<u>38,496,411</u>	<u>5,755,881</u>	15%	<u>39,412,008</u>
Invested in capital assets, net of related debt	2,597,336	10,546,599	(7,949,263)	-75%	11,936,443
Restricted assets	17,670,630	9,385,025	8,285,605	88%	8,538,929
Unrestricted assets	<u>902,546</u>	<u>519,573</u>	<u>382,973</u>	74%	<u>573,284</u>
Total net assets	<u>21,170,512</u>	<u>20,451,197</u>	<u>719,315</u>	4%	<u>21,048,656</u>
Total liabilities and net assets	\$ <u>65,422,804</u>	\$ <u>58,947,608</u>	\$ <u>6,475,196</u>	11%	\$ <u>60,460,664</u>

FY2005 Seaport Division Revenue

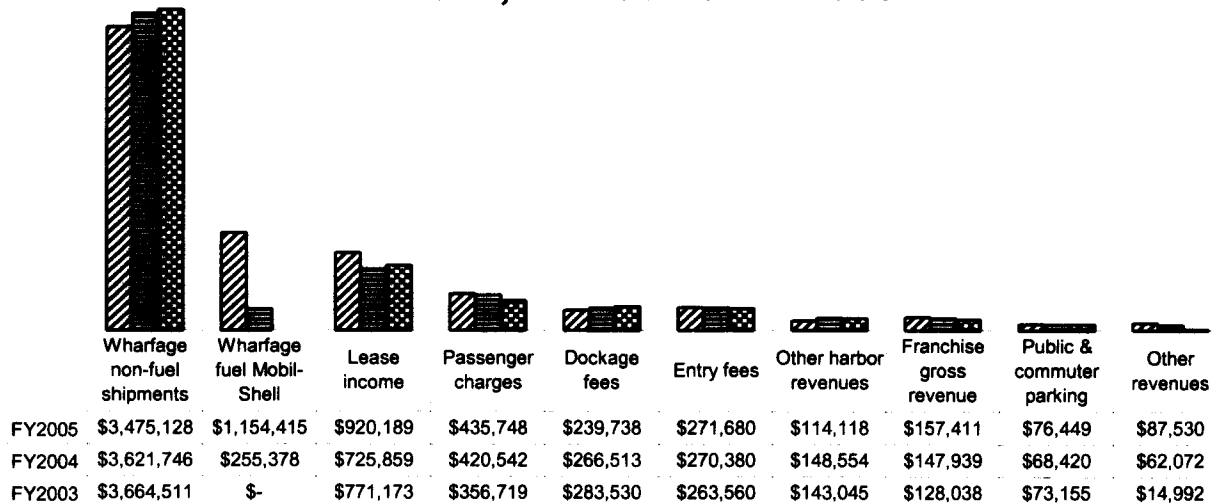
Operating Revenues

The major source of FY2005 port revenues is derived from wharfage revenues of \$3.5 million, which make up 50% of total revenues. Fuel shipment wharfage revenue of \$1.2 million makes up an additional 17% of all revenues.

Lease income of \$0.9 million make up 13% of port revenues followed by passenger fees by 6% at \$435,748 and then dockage and entry fee at 4%, respectively, of total revenues.

Seaport Operating Revenues	FY2005	% of Total	FY2004	% of Total	FY2003
Wharfage non-fuel shipments	\$ 3,475,128	50%	\$ 3,621,746	61%	\$ 3,664,511
Wharfage fuel Mobil-Shell	1,154,415	17%	255,378	4%	-
Lease income	920,189	13%	725,859	12%	771,173
Passenger charges	435,748	6%	420,542	7%	356,719
Dockage fees	239,738	4%	266,513	4%	283,530
Entry fees	271,680	4%	270,380	5%	263,560
Other harbor revenues	114,118	2%	148,554	3%	143,045
Franchise gross revenue fees	157,411	2%	147,939	2%	128,038
Public & commuter parking	76,449	1%	68,420	1%	73,155
Other revenues	<u>87,530</u>	1%	<u>62,072</u>	1%	<u>14,992</u>
Total Seaport Operating Revenues	\$ <u>6,932,406</u>	100%	\$ <u>5,987,403</u>	100%	\$ <u>5,698,723</u>

Seaport Operating Revenues FY 2005, FY 2004 & FY 2003



FY2005/2004 Seaport Revenues -Comparative

Total seaport revenues increased from \$5,987,403 in FY2004 up to \$6,932,406 for an increase of 16% or \$945,003 due to higher collection of wharfage fees on fuel shipments. Harbor revenues increased by 15% or \$745,052 as compared to FY2004 mainly due to the assessment of wharfage charges for fuel shipment. Lease and concession revenues increased by 31% or \$243,590 and other revenues decreased by 21% for drop of \$43,639.

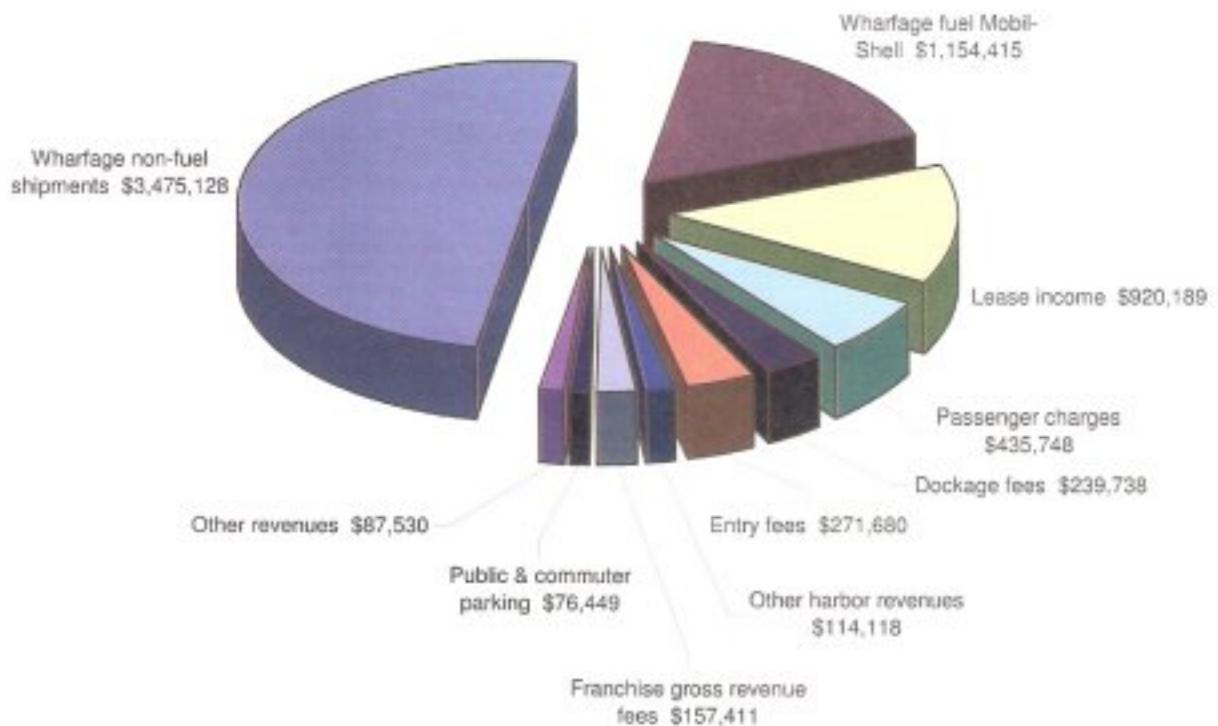
All Seaports	FY2005 Audited	FY2004 Audited	Change	%	FY2003 Audited
Seaport operating revenues					
Harbor revenues	\$ 5,728,165	\$ 4,983,113	\$ 745,052	15%	\$ 4,711,365
Concession and lease revenues	1,037,869	794,279	243,590	31%	844,328
Other revenues	<u>166,372</u>	<u>210,011</u>	<u>(43,639)</u>	-21%	<u>143,030</u>
Total seaport operating revenues	\$ <u>6,932,406</u>	\$ <u>5,987,403</u>	\$ <u>945,003</u>	16%	\$ <u>5,698,723</u>

As shown in the table below, Harbor Revenues basically had a net increase of 15% due to the additional collection of fuel wharfage fees in the amount of \$899,037 during FY 2005. The seaport division implemented a new rate on fuel wharfage fees and thus, the increase in the overall harbor revenues.

Wharfage fees from non-fuel shipments dropped by 4% or \$146,618 due to the decline in revenue tonnage from garment industry shipments. Lease income increased by 31% or \$217,308 and parking fees increased by 12% or \$8,029. Franchise fee revenues increased by 6% or \$9,472.

All Seaports	FY2005 Audited	FY2004 Audited	Change	%	FY2003 Audited
Harbor revenues					
Wharfage non-fuel shipments	\$ 3,475,128	\$ 3,621,746	\$ (146,618)	-4%	\$ 3,664,511
Wharfage fuel Mobil-Shell	<u>1,154,415</u>	<u>255,378</u>	<u>899,037</u>	352%	<u>-</u>
Wharfage revenues from regular operations	4,629,543	3,877,124	752,419	19%	3,664,511
Passenger charges	435,748	420,542	15,206	4%	356,719
Dockage fees	239,738	266,513	(26,775)	-10%	547,090
Entry fees	271,680	270,380	1,300	0%	-
Throughput fees	37,338	28,151	9,187	33%	-
Other harbor revenues	<u>114,118</u>	<u>120,403</u>	<u>(6,285)</u>	-5%	<u>143,045</u>
Total harbor revenues	<u>5,728,165</u>	<u>4,983,113</u>	<u>745,052</u>	15%	<u>4,711,365</u>
Concession revenues					
Lease income	920,189	702,881	217,308	31%	771,173
Public and commuter parking	76,449	68,420	8,029	12%	73,155
Other rental income	<u>41,231</u>	<u>22,978</u>	<u>18,253</u>	79%	<u>-</u>
Total concession revenues	<u>1,037,869</u>	<u>794,279</u>	<u>243,590</u>	31%	<u>844,328</u>
Other revenues					
Franchise gross revenue fees	157,411	147,939	9,472	6%	128,038
Other revenues	<u>8,961</u>	<u>62,072</u>	<u>(53,111)</u>	-86%	<u>14,992</u>
Total other revenues	<u>166,372</u>	<u>210,011</u>	<u>(43,639)</u>	--21%	<u>143,030</u>
Total seaport revenues from regular operations	\$ 6,932,406	\$ 5,987,403	\$ 945,003	16%	\$ 5,698,723

FY 2005 Seaport Revenues

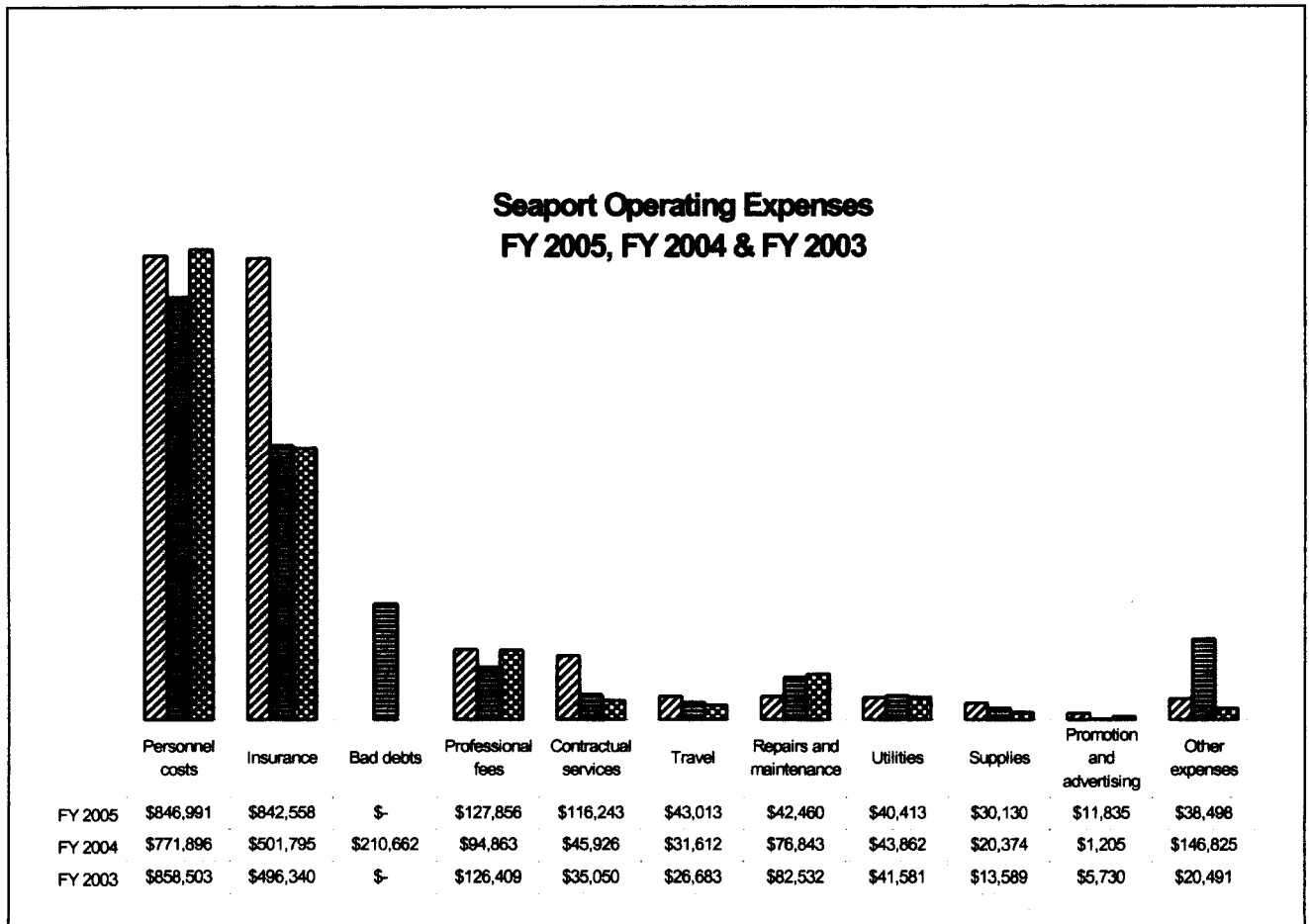


Seaport Operating Expenses

Operating Expenses

The port's major expense category in FY2005 is personnel costs at \$ 846,991, which make up 40% of the FY2005 operating expense, similar percentage with the prior year. Insurance cost ranks next as a major expense item with a 68% increase in premium in FY2005. Insurance premium escalated to \$842,558 or 39% of the entire operating expenses. There was no allowance for bad debts in FY2005 as compared to FY2004. The following charts compare the seaport expenses of FY2005 against FY2004.

Seaport Operating Expenses	FY2005	% of Total	FY2004	% of Total	FY2003
Personnel costs	\$ 846,991	40%	\$ 771,896	40%	\$ 858,503
Insurance	842,558	39%	501,795	26%	496,340
Bad debts	-	0%	210,662	11%	-
Professional fees	127,856	6%	94,863	5%	126,409
Contractual services	116,243	5%	45,926	2%	35,050
Travel	43,013	2%	31,612	2%	26,683
Repairs and maintenance	42,460	2%	76,843	4%	82,532
Utilities	40,413	2%	43,862	2%	41,581
Supplies	30,130	1%	20,374	1%	13,589
Promotion and advertising	11,835	1%	1,205	0%	5,730
Other expenses	<u>38,498</u>	2%	<u>146,825</u>	7%	<u>20,491</u>
Total Seaport Operating Expenses	\$ <u>2,139,997</u>	100%	\$ <u>1,945,863</u>	100%	\$ <u>1,708,908</u>



FY2005/2004 Operating Expenses - Comparative

FY2005 overall operating expenses increased by 10% or \$194,134 to \$2,139,997 due to a higher personnel and operating costs than in 2004.

All Seaports	FY2005 Audited	FY2004 Audited	Change	%	FY2003 Audited
Operating expenses					
Personnel costs	\$ 846,991	\$ 771,896	\$ 75,095	10%	\$ 858,503
Maintenance and operating expenses	<u>1,293,006</u>	<u>1,173,967</u>	<u>119,039</u>	10%	<u>848,405</u>
Seaport operating expenses before depreciation	2,139,997	1,945,863	194,134	10%	1,706,908
Depreciation	<u>2,456,989</u>	<u>2,445,864</u>	<u>11,125</u>	0%	<u>2,387,742</u>
Total operating expenses after depreciation	\$ <u>4,596,986</u>	\$ <u>4,391,727</u>	\$ <u>205,259</u>	5%	\$ <u>4,094,650</u>

Salaries increased in FY2005 by 11% or \$63,422 due to retirement of Saipan Seaport manager, hiring of ports police officers to fill the newly created Ports Police Division and the conversion of WIA trainees from temporary to permanent staff. Employee benefits expense increased by 7% or \$11,673 due to correspond with new hires and salary upgrades. Non-personnel operating expenses increased in FY2005 by 10% or \$119,039 primarily due to insurance premiums, which increased by 68% or \$340,763 due to worldwide insurance conditions. The increase in insurance costs was significantly not registering any allowance for bad debts expense in FY2005 as compared to FY2004's allowance of \$210,662. CPA performed aggressive collection efforts on AR accounts during this fiscal year. Professional fees increased by 35% or \$32,993 primarily due to legal review required for issuance of 2005 bonds for the Saipan Seaport Container Yard paving project. A 45% reduction or \$34,383 in repairs expenses helped alleviate the increase in insurance costs.

All Seaports	FY2005 Audited	FY2004 Audited	Change	%	FY2003 Audited
Personnel operating costs					
Salaries	\$ 661,363	\$ 597,941	\$ 63,422	11%	\$ 655,448
Employee benefits	<u>185,628</u>	<u>173,955</u>	<u>11,673</u>	7%	<u>203,055</u>
Total personnel costs	<u>846,991</u>	<u>771,896</u>	<u>75,095</u>	10%	<u>858,503</u>
Non-personnel operating expenses					
Insurance	842,558	501,795	340,763	68%	496,340
Supplies	30,130	20,374	9,756	48%	13,589
Professional fees	127,856	94,863	32,993	35%	126,409
Bad debts	-	210,662	(210,662)	-100%	-
Utilities	40,413	43,862	(3,449)	-8%	41,581
Contractual services	116,243	45,926	70,317	153%	35,050
Repairs and maintenance	42,460	76,843	(34,383)	-45%	82,532
Travel	43,013	31,612	11,401	36%	26,683
Promotion and advertising	11,835	1,205	10,630	882%	5,730
Other	<u>38,498</u>	<u>146,825</u>	<u>(108,327)</u>	-74%	<u>20,491</u>
Non-personnel operating expenses	<u>1,293,006</u>	<u>1,173,967</u>	<u>119,039</u>	10%	<u>848,405</u>
Seaport operating expenses before depreciation	2,139,997	1,945,863	194,134	10%	1,706,908
Depreciation	<u>2,456,989</u>	<u>2,445,864</u>	<u>11,125</u>	0%	<u>2,387,742</u>
Total operating expenses after depreciation	\$ <u>4,596,986</u>	\$ <u>4,391,727</u>	\$ <u>205,259</u>	5%	\$ <u>4,094,650</u>

Seaport Bond Debt Coverage Ratio

The following schedule shows compliance in FY2005 with the bondholder debt service coverage ratio of 1.25 for both fiscal years 2005 and 2004. This ratio of 1.25 is a debt ratio required by the rate covenant of the bond indenture in order for the Authority to maintain its investment grade rating of –BBB, a rating assigned by Fitch Rating, a bond rating agency.

Seaport Division - Debt Service Coverage Ratio \$33,775,000 Revenue Bonds Issued on March 26, 1998

	2003 - Audited	2004-Audited	2005-Audited
Total Revenues	\$ 5,761,668	\$ 6,018,609	\$ 7,122,585
Operating Expenses	1,706,908	1,945,863	2,139,997
Net Revenue	\$ 4,054,760	\$ 4,072,746	\$ 4,982,588
Debt Service	2,606,480	2,606,675	2,599,715
Debt Service Coverage Ratio	1.55	1.56	1.92

FY2005 Financial Summary of Seaport Division

- Operating revenue increased by 16% from \$5.9 million to \$6.9 million due mainly to new wharfage fees on fuel shipment at the port;
- Operating expense increased by 10% or \$194,134 due to increased premium cost on various port insurance policies and hiring of new ports police officers for compliance with port security mandates;
- Operating income, before depreciation, increased by 19% or \$0.7 million from \$4.0 million to \$4.7 million in FY2005.

Statement of Revenues, Expenses and Changes in Net Assets

Seaport Division	FY2005 Audited	FY2004 Audited	Change	%	FY2003 Audited
Revenues from operations	\$ 6,932,406	\$ 5,987,403	\$ 945,003	16%	\$ 5,698,723
Operations and maintenance expenses	(2,139,997)	(1,945,863)	(194,134)	10%	(1,706,908)
Operating income (before depreciation)	4,792,409	4,041,540	750,869	19%	3,991,815
Depreciation and amortization	(2,456,989)	(2,445,864)	(11,125)	0%	(2,387,742)
Operating income (after depreciation)	2,335,420	1,595,676	739,744	46%	1,604,073
Non-operating revenues and expenses, net	(1,802,516)	(2,307,269)	504,753	-22%	(2,312,584)
Income (loss) before capital contributions and transfers	532,904	(711,593)	1,244,497	-175%	(708,511)
Capital contributions and transfers	186,411	114,134	72,277	63%	6,894
Changes in net assets	\$ 719,315	\$ (597,459)	\$ 1,316,774	-220%	\$ (701,617)
Net assets reconciliation:					
Net assets - beginning	\$ 20,451,197	\$ 21,048,656	\$ (597,459)	-3%	\$ 21,750,273
Changes in net assets	719,315	(597,459)	1,316,774	-220%	(701,617)
Net assets - ending	\$ 21,170,512	\$ 20,451,197	\$ 719,315	4%	\$ 21,048,656

Seaport Restricted Investments:

Restricted investments for seaport construction and debt service purposes represent the unused proceeds of the 1998 and 2005 Seaport Revenue bonds deposited with the Trustee. The balances as of September 30, 2005 are:

Bond Reserve Fund	\$ 3,285,667
Supplemental Reserve Fund	6,991,329
Reimbursement Fund	5,233
Bond Fund	870,444
Maintenance and Operations	263,140
Construction Fund	6,007,577
Cost of Issuance	<u>247,240</u>
Total Restricted Investments	\$ <u>17,670,630</u>

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 \$7,321,380 as of September 30, 2005. The CDA promissory note is subordinate to CPA's Seaport bond obligations. CPA is current with its payments to CDA.

1998 and 2005 Seaport Revenue Bonds

1. 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. 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. Bond payments are current with annual bond debt payment of \$2.6 million. The balance of the long-term portion as of September 30, 2005 is \$29,775,000. 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.
2. CPA issued another Senior Series A tax-exempt revenue bonds on September 21, 2005 in the amount of \$7,225,000 for the purpose of financing primarily the paving of the container yard area of the seaport. Pursuant to Section 2.04 (A)(9) of the 1998 Senior Series A Seaport Revenue Bond Indenture, the Authority entered into a Second Supplemental Indenture for the above 2005 Senior Series A bonds at a payable semi annual interest rate of 5.5% on March 15 and September 15 of each year. The initial principal payment of the bond will commence in Fiscal Year 2008 at \$150,000.

The long term portion outstanding for both Senior Series A tax exempt bonds (bonds item #1 and #2 above) as of September 30, 2005 is \$37,000,000.

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, 2005 is \$6,991,329 and contributions are current.

COMMONWEALTH PORTS AUTHORITY

Statements of Net Assets
September 30, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current assets:		
Cash and cash equivalents	\$ 8,945,925	\$ 6,198,100
Receivables:		
Grantor agencies	2,169,580	3,295,968
Operations, net	1,858,699	2,281,402
Receivable from related parties	41,996	37,066
Officers and employees	36,380	30,727
Prepaid expenses	168,660	20,105
Deferred bond issue cost, current portion	64,544	64,544
Investments, restricted for construction and debt service purposes	<u>20,627,716</u>	<u>11,869,264</u>
Total current assets	<u>33,913,500</u>	<u>23,797,176</u>
Noncurrent assets:		
Deferred bond issue cost	1,349,472	1,406,865
Receivable from related parties	4,696,105	4,015,684
Capital assets, net	<u>146,510,189</u>	<u>143,486,038</u>
Total noncurrent assets	<u>152,555,766</u>	<u>148,908,587</u>
	<u>\$ 186,469,266</u>	<u>\$ 172,705,763</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Revenue bonds payable, current portion	\$ 985,000	\$ 925,000
Note payable to related party, current portion	1,219,120	1,335,510
Contractors payable	2,463,136	3,217,663
Trade and other payables	1,355,908	272,219
Due to related parties	1,109,489	974,456
Accrued expenses	552,612	628,602
Deferred income	11,925	56,882
Compensated absences, current portion	<u>289,877</u>	<u>311,931</u>
Total current liabilities	7,987,067	7,722,263
Compensated absences, net of current portion	372,085	382,421
Revenue bonds payable	53,359,687	47,129,678
Note payable to related party	<u>6,102,260</u>	<u>6,755,912</u>
Total liabilities	<u>67,821,099</u>	<u>61,990,274</u>
Commitment and contingency		
Net assets:		
Invested in capital assets, net of related debt	86,258,138	88,811,347
Restricted	20,627,716	11,869,264
Unrestricted	<u>11,762,313</u>	<u>10,034,878</u>
Total net assets	<u>118,648,167</u>	<u>110,715,489</u>
	<u>\$ 186,469,266</u>	<u>\$ 172,705,763</u>

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Aviation fees	\$ 7,323,419	\$ 7,146,501
Seaport fees	5,728,165	4,983,113
Concession and lease income	4,778,425	4,703,892
Other	<u>1,598,453</u>	<u>1,523,352</u>
	19,428,462	18,356,858
Less bad debts	<u>(455,113)</u>	<u>(430,662)</u>
Operating revenues, net	<u>18,973,349</u>	<u>17,926,196</u>
Operating expenses:		
Depreciation and amortization	8,770,716	8,146,364
Salaries and wages	5,600,366	5,914,029
Insurance	1,649,219	1,282,384
Employee benefits	1,623,470	1,719,510
Professional fees	641,531	494,124
Supplies	562,632	465,803
Contractual services	479,547	401,248
Utilities	374,255	398,131
Repairs and maintenance	276,163	569,518
Travel	228,204	219,895
Promotion and advertising	102,875	63,811
Training	54,679	7,398
Other	<u>428,441</u>	<u>517,460</u>
Total operating expenses	<u>20,792,098</u>	<u>20,199,675</u>
Operating loss	<u>(1,818,749)</u>	<u>(2,273,479)</u>
Non-operating revenues (expenses):		
Passenger facility charges	1,335,183	-
Proceeds from insurance claims	300,000	-
Interest income	292,206	69,647
Interest expense	(2,910,115)	(3,165,539)
Amortization of bond issue costs	<u>(57,393)</u>	<u>(57,393)</u>
Total non-operating revenues (expenses), net	<u>(1,040,119)</u>	<u>(3,153,285)</u>
Loss before capital contributions	(2,858,868)	(5,426,764)
Capital contributions	<u>10,791,546</u>	<u>9,687,205</u>
Change in net assets	7,932,678	4,260,441
Net assets - beginning	<u>110,715,489</u>	<u>106,455,048</u>
Net assets - ending	<u>\$ 118,648,167</u>	<u>\$ 110,715,489</u>

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from customers	\$ 18,802,799	\$ 17,485,848
Cash payments to suppliers for goods and services	(3,768,480)	(4,333,145)
Cash payments to employees for services	<u>(7,433,823)</u>	<u>(7,897,250)</u>
Net cash provided by operating activities	<u>7,600,496</u>	<u>5,255,453</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(11,983,135)	(10,000,496)
Proceeds from insurance on capital assets	300,000	-
Capital contributions, net	11,917,934	8,512,336
Passenger facility charge receipts	1,335,183	-
Principal paid on revenue bond maturities	(925,000)	(875,000)
Payments on note payable to related party	(770,042)	(449,393)
Net proceeds from bond issuance	7,100,730	-
Interest paid on revenue bonds and note payable to related party	<u>(3,362,095)</u>	<u>(3,432,148)</u>
Net cash provided by (used for) capital and related financing activities	<u>3,613,575</u>	<u>(6,244,701)</u>
Cash flows from investing activities:		
Net change in restricted investments	(8,758,452)	(476,111)
Interest income	<u>292,206</u>	<u>69,647</u>
Net cash used for investing activities	<u>(8,466,246)</u>	<u>(406,464)</u>
Net change in cash and cash equivalents	2,747,825	(1,395,712)
Cash and cash equivalents at beginning of year	<u>6,198,100</u>	<u>7,593,812</u>
Cash and cash equivalents at end of year	<u>\$ 8,945,925</u>	<u>\$ 6,198,100</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,818,749)	\$ (2,273,479)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	8,770,716	8,146,364
Bad debts	455,113	430,662
(Increase) decrease in assets:		
Receivables - operations	(32,410)	(682,308)
Receivables - officers and employees	(5,653)	(897)
Prepaid expenses	(148,555)	86,210
Related parties	(685,351)	(285,299)
Increase (decrease) in liabilities:		
Accounts payable - trade and other	1,083,689	(38,808)
Related parties	135,033	113,447
Accrued expenses	(75,990)	(217,930)
Deferred income	(44,957)	30,996
Compensated absences	<u>(32,390)</u>	<u>(53,505)</u>
Net cash provided by operating activities	<u>\$ 7,600,496</u>	<u>\$ 5,255,453</u>

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(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.

Concentrations of Credit Risk

Financial instruments which potentially subject CPA to concentrations of credit risk consist principally of cash demand deposits and investments.

At September 30, 2005, CPA has cash deposits and investments in bank accounts that exceed federal depository insurance limits. CPA has not experienced any losses on such accounts.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

For the purposes of the statements of net assets and the statements of cash flows, cash and cash equivalents is defined as cash on hand, demand deposits, savings and unrestricted short-term investments in U.S. Treasury obligations with a maturity date within three months of the date acquired. Short-term investment accounts established and set aside for construction and debt service purposes are 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. During the years ended September 30, 2005 and 2004, \$566,259 and \$373,460, 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.

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. CPA's current policy is to capitalize items in excess of \$1,000.

Bond Discounts and Issuance Costs

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

Passenger Facility Charges

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

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

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

Plan members are required to contribute 6.5% and 9.0% of their annual covered salary for Class I and Class II members, respectively, and CPA is required to contribute at an actuarially determined rate. The current rate is 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, 2005, 2004 and 2003 were \$1,849,847, \$1,424,747 and \$1,475,353, respectively, equal to the required contributions for each year.

Net Assets

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

- Investment 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 assets subject to externally imposed stipulations that CPA maintain them permanently. For the years ended September 30, 2005 and 2004, CPA does not have nonexpendable net assets.
 - Expendable - Net assets whose use by CPA is subject to externally imposed stipulations that can be fulfilled by actions of CPA pursuant to those stipulations or that expire by the passage of time.
- Unrestricted; net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, Continued

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, 2005 and 2004 is \$661,962 and \$694,352, respectively.

Operating and Non-Operating Revenues and Expenses

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

New Accounting Standards

During fiscal year 2005, CPA implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*. 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 risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

For fiscal year 2006, CPA will be implementing GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 establishes standards for impairment of capital assets when its service utility has declined significantly and unexpectedly. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of CPA.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for periods beginning after December 15, 2008. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of CPA.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 establishes guidance for state and local governmental employers on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this Statement are effective for periods beginning after June 15, 2005. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of CPA.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(2) Summary of Significant Accounting Policies, Continued

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 2004 balances in the accompanying financial statements have been reclassified to conform to the 2005 presentation.

(3) Deposits and Investments

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

Deposits

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

- Category 1 Deposits that are federally insured or collateralized with securities held by CPA or its agent in CPA's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in CPA's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in CPA's name and non-collateralized deposits.

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

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(3) Deposits and Investments, Continued

Deposits, Continued

As of September 30, 2005 and 2004, total cash and cash equivalents were \$8,945,925 and \$6,198,100, respectively, and the corresponding bank balances were \$9,083,449 and \$6,006,127, respectively. Of the bank balance amounts, \$7,924,365 and \$4,488,501, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$1,159,084 and \$1,517,626, respectively, represent short-term investments held and administered by CPA's trustees in accordance with various trust agreements. Based on negotiated trust and custody contracts, all of these deposits were held in CPA's name by CPA's custodial financial institutions at September 30, 2005 and 2004. As of September 30, 2005 and 2004, bank deposits in the amount of \$100,000 were FDIC insured. Accordingly, these deposits are exposed to custodial credit risk. CNMI law does not require component unit funds to be collateralized and thus CPA's funds, in excess of FDIC insurance, are uncollateralized.

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:

	<u>2005</u>	<u>2004</u>
<u>Airport Division</u>		
Bond Reserve Fund	\$ 1,655,719	\$ 1,626,005
Construction Fund	653,485	647,408
Bond Fund	198,789	181,227
Maintenance and Operation	<u>449,093</u>	<u>29,599</u>
	<u>2,957,086</u>	<u>2,484,239</u>
<u>Seaport Division</u>		
Bond Reserve Fund	3,285,667	2,691,759
Supplemental Reserve Fund	6,991,329	6,202,896
Reimbursement Fund	5,233	5,128
Bond Fund	870,444	307,200
Maintenance and Operation	263,140	178,042
Construction Fund	6,007,577	-
Cost of Issuance	<u>247,240</u>	<u>-</u>
	<u>17,670,630</u>	<u>9,385,025</u>
	<u>\$ 20,627,716</u>	<u>\$ 11,869,264</u>

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

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

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(3) Deposits and Investments, Continued

Investments, Continued

- Category 2 Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in CPA's name; or
- Category 3 Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in CPA's name.

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

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, CPA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. CPA's investments are held and administered by CPA's trustees in accordance with various trustee agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held in CPA's name by CPA's custodial financial institutions at September 30, 2005 and 2004.

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

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for CPA. As of September 30, 2005 and 2004, there were no investments in any one issuer that exceeded 5% of total investments.

(4) Receivables From Federal Grantor Agencies

Receivables from federal grantor agencies as of September 30, 2005 and 2004, are as follows:

	<u>2005</u>	<u>2004</u>
<u>U.S. Department of Transportation</u>		
<u>Federal Aviation Administration</u>		
Saipan International Airport, AIP Project No. 3-69-0002-31/32/50/53	\$ 11,210	\$ 172,161
Saipan International Airport, AIP Project No. 3-69-0002-33/46	-	567,452
Saipan International Airport, AIP Project No. 3-69-0002-35	19,214	218,695
Saipan International Airport, AIP Project No. 3-69-0002-37	2,250	4,500
Saipan International Airport, AIP Project No. 3-69-0002-38/41	28,243	12,666

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(4) Receivables From Federal Grantor Agencies, Continued

	<u>2005</u>	<u>2004</u>
<u>U.S. Department of Transportation</u>		
<u>Federal Aviation Administration, Continued</u>		
Saipan International Airport, AIP Project No. 3-69-0002-39	-	88,207
Saipan International Airport, AIP Project No. 3-69-0002-42/47	172,382	32,888
Saipan International Airport, AIP Project No. 3-69-0002-43	4,625	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
Saipan International Airport, AIP Project No. 3-69-0002-48	2,375	-
Saipan International Airport, AIP Project No. 3-69-0002-51	2,375	-
Saipan International Airport, AIP Project No. 3-69-0002-52	2,375	-
Saipan International Airport, AIP Project No. 3-69-0002-53	2,375	-
Rota International Airport, AIP Project No. 3-69-0003-13	-	7,500
Rota International Airport, AIP Project No. 3-69-0003-14	174	14,899
Rota International Airport, AIP Project No. 3-69-0003-15	-	36,603
Rota International Airport, AIP Project No. 3-69-0003-16	-	2,500
Rota International Airport, AIP Project No. 3-69-0003-17	-	33,168
Rota International Airport, AIP Project No. 3-69-0003-19	3,847	-
Master Plan Study (Pagan), AIP Project No. 3-69-0004-01	1,425	-
Tinian International Airport, AIP Project No. 3-69-0011-06/15	-	68,563
Tinian International Airport, AIP Project No. 3-69-0011-10	2,250	-
Tinian International Airport, AIP Project No. 3-69-0011-14	-	32,317
Tinian International Airport, AIP Project No. 3-69-0011-16	1,425	-
Tinian International Airport, AIP Project No. 3-69-0011-17	1,425	-
Tinian International Airport, AIP Project No. 3-69-0011-18	<u>2,375</u>	<u>-</u>
	260,345	1,388,368
<u>Transportation Security Administration</u>		
Security reimbursement	31,247	33,972
<u>United States Coast Guard</u>		
Memorandum of Agreement	1,537	70,459
<u>U.S. Department of the Interior</u>		
Tinian Runway Project	1,628,130	1,628,130
<u>U.S. Department of Homeland Security</u>		
Public Assistance Grants	<u>248,321</u>	<u>175,039</u>
	<u>\$ 2,169,580</u>	<u>\$ 3,295,968</u>

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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(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, 2005 and 2004, are as follows:

	<u>2005</u>	<u>2004</u>
Accounts receivable	\$ 3,875,751	\$ 4,012,786
Less allowance for doubtful accounts	<u>(2,017,052)</u>	<u>(1,731,384)</u>
	<u>\$ 1,858,699</u>	<u>\$ 2,281,402</u>

(6) Capital Assets

Capital asset balances consist of the following as of September 30, 2005 and 2004:

	Estimated Useful Lives	Balance October 1, 2004	Increases	Decreases	Balance September 30, 2005
Assets not being depreciated:					
Construction in progress		\$ 38,922,733	\$ 10,394,210	\$ (13,198,498)	\$ 36,118,445
Land		<u>464,429</u>	-	-	<u>464,429</u>
Total capital assets not being depreciated		<u>39,387,162</u>	<u>10,394,210</u>	<u>(13,198,498)</u>	<u>36,582,874</u>
Capital assets being depreciated:					
Runway and improvements	20 years	40,601,315	5,905,505	-	46,506,820
Other improvements	3 - 10 years	12,640,720	179,893	-	12,820,613
Terminal facilities	20 years	63,306,193	819,835	-	64,126,028
Terminal equipment	2 - 10 years	8,683,852	863,205	-	9,547,057
Harbor facilities	20 years	61,826,127	171,173	-	61,997,300
Grounds maintenance and shop equipment	2 - 5 years	507,091	-	(356)	506,735
Fire and rescue equipment	2 - 8 years	3,327,521	6,623,527	-	9,951,048
Office furniture and fixtures	2 - 10 years	816,448	23,596	-	840,044
General transportation	3 - 5 years	736,462	9,020	-	745,482
Other	3 - 5 years	<u>601,929</u>	<u>5,644</u>	<u>(2,243)</u>	<u>605,330</u>
		193,047,658	14,601,398	(2,599)	207,646,457
Less accumulated depreciation		<u>(88,948,782)</u>	<u>(8,770,716)</u>	<u>356</u>	<u>(97,719,142)</u>
Total capital assets being depreciated		<u>104,098,876</u>	<u>5,830,682</u>	<u>(2,243)</u>	<u>109,927,315</u>
Total capital assets, net		<u>\$ 143,486,038</u>	<u>\$ 16,224,892</u>	<u>\$ (13,200,741)</u>	<u>\$ 146,510,189</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(6) Capital Assets, Continued

	Estimated Useful Lives	Balance October 1, 2003	Increases	Decreases	Balance September 30, 2004
Assets not being depreciated:					
Construction in progress		\$ 37,276,245	\$ 9,486,612	\$ (7,840,124)	\$ 38,922,733
Land		464,429	-	-	464,429
Total capital assets not being depreciated		37,740,674	9,486,612	(7,840,124)	39,387,162
Capital assets being depreciated:					
Runway and improvements	20 years	38,377,087	2,224,228	-	40,601,315
Other improvements	3 - 10 years	9,028,653	3,618,984	(6,917)	12,640,720
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	505,570	5,902	(4,381)	507,091
Fire and rescue equipment	2 - 8 years	2,448,255	879,266	-	3,327,521
Office furniture and fixtures	2 - 10 years	810,508	26,932	(20,992)	816,448
General transportation	3 - 5 years	813,978	-	(77,516)	736,462
Other	3 - 5 years	604,706	-	(2,777)	601,929
		185,110,049	8,050,192	(112,583)	193,047,658
Less accumulated depreciation		(80,916,644)	(8,146,364)	114,226	(88,948,782)
Total capital assets being depreciated		104,193,405	(96,172)	1,643	104,098,876
Total capital assets, net		\$ 141,934,079	\$ 9,390,440	\$ (7,838,481)	\$ 143,486,038

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

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

(7) Revenue Bonds Payable

Airport Division

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

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Notes to Financial Statements
September 30, 2005 and 2004

(7) Revenue Bonds Payable, Continued

Airport Division, Continued

Revenue bonds payable as of September 30, 2005 and 2004, consist of the following:

	<u>2005</u>	<u>2004</u>
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2005 and 2028 are listed below.	\$ 17,995,000	\$ 18,345,000
Deferred costs of debt refunding	<u> -</u>	<u> (80,953)</u>
	17,995,000	18,264,047
Current portion	<u> 370,000</u>	<u> 350,000</u>
Long-term portion	<u>\$ 17,625,000</u>	<u>\$ 17,914,047</u>

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:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	475,000	1,007,969	1,482,969
2011 - 2015	2,840,000	4,543,437	7,383,437
2016 - 2020	3,850,000	3,505,624	7,355,624
2021 - 2025	5,220,000	2,099,063	7,319,063
2026 - 2028	<u>3,980,000</u>	<u> 383,439</u>	<u>4,363,439</u>
	<u>\$ 17,995,000</u>	<u>\$ 15,842,345</u>	<u>\$ 33,837,345</u>

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:

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(7) Revenue Bonds Payable, Continued

Airport Division, Continued

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

Seaport Division

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

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, 2005 and 2004, consist of the following:

	<u>2005</u>	<u>2004</u>
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2005 and 2028 are listed below.	\$ 30,390,000	\$ 30,965,000
Special Revenue Bonds, tax exempt, 2005 Senior Series A: interest and annual installments payable to the Bond Trustee between 2005 and 2031 are listed below.	7,225,000	-
Deferred costs of debt refunding on 1998 Senior Series A bonds	(1,141,043)	(1,174,369)
Discount on 2005 Senior Series A bonds	<u>(124,270)</u>	<u>-</u>
	36,349,687	29,790,631
Current portion	<u>615,000</u>	<u>575,000</u>
Long-term portion	<u>\$ 35,734,687</u>	<u>\$ 29,215,631</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

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:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 615,000	\$ 2,367,367	\$ 2,982,367
2007	655,000	2,340,910	2,995,910
2008	845,000	2,292,235	3,137,235
2009	895,000	2,236,492	3,131,492
2010	950,000	2,177,367	3,127,367
2011 - 2015	5,745,000	9,858,640	15,603,640
2016 - 2020	7,790,000	7,704,785	15,494,785
2021 - 2025	10,560,000	4,780,022	15,340,022
2026 - 2030	9,035,000	1,157,503	10,192,503
2031	<u>525,000</u>	<u>14,438</u>	<u>539,438</u>
	<u>\$ 37,615,000</u>	<u>\$ 34,929,759</u>	<u>\$ 72,544,759</u>

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, 2005 and 2004, total deposits in the Seaport supplemental reserve fund amounted to \$6,991,329 and \$6,202,896, 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 Series A 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.

Terms of redemption of 2005 Senior Series A Bonds:

- a) The 2005 Senior Series A Bonds maturing prior to March 15, 2015, are not subject to optional redemption prior to maturity. 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:

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

<u>Redemption Dates</u>	<u>Redemption Prices</u>
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) The 2005 Senior Series A Bonds are subject to mandatory redemption, in part on the earliest Interest Payment Date for which notice can be given after completion of the 2005 Project or after three years from the date of issuance of the 2005 Senior Series A Bonds, from moneys transferred from the 2005 Series A Construction Account within 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) The 2005 Senior Series A 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 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, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.
- d) The 2005 Senior Series A Bonds maturing are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity in this subsection d), at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption. Subject to the terms and conditions set forth in this Section and Section 5.04, such 2005 Senior Series A Bonds shall be redeemed (or paid at maturity, as the case may be) by application of Mandatory Sinking Account Payments for such 2005 Senior Series A Bonds, in the amounts (after giving effect to the credits provided for in Section 5.04) and on March 15 in the years hereinafter set forth:

Mandatory Sinking Account Payments

Mandatory Sinking Fund Redemption Date (March 15)	<u>Amount</u>	Mandatory Sinking Fund Redemption Date (March 15)	<u>Amount</u>
2008	\$ 150,000	2020	\$ 290,000
2009	\$ 155,000	2021	\$ 305,000
2010	\$ 165,000	2022	\$ 320,000
2011	\$ 175,000	2023	\$ 340,000
2012	\$ 185,000	2024	\$ 360,000
2013	\$ 195,000	2025	\$ 380,000
2014	\$ 205,000	2026	\$ 400,000
2015	\$ 220,000	2027	\$ 425,000
2016	\$ 230,000	2028	\$ 445,000
2017	\$ 245,000	2029	\$ 475,000
2018	\$ 260,000	2030	\$ 500,000
2019	\$ 275,000	2031 *	\$ 525,000

* Maturity

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

- e) Upon the redemption of 2005 Senior Series A Bonds pursuant to subsection a), b) or c) of this Section, the principal amount of such 2005 Senior Series A Bonds shall be credited against remaining Mandatory Sinking Account Payments for the 2005 Senior Series A Bonds in such manner as if such Mandatory Sinking Account Payments were maturities (i.e., to produce as nearly proportional reductions as practicable, provided that Mandatory Sinking Account Payments shall remain as integral multiples of the applicable minimum Authorized Denomination).

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, 2005.

(8) Note Payable to Related Party

CPA's note payable is as follows:

	<u>2005</u>	<u>2004</u>
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.	\$ 7,321,380	\$ 8,091,422
Less amounts due within one year	<u>1,219,120</u>	<u>1,335,510</u>
Long-term debt	<u>\$ 6,102,260</u>	<u>\$ 6,755,912</u>

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, 2005, an amendment to the loan agreement has not been signed by both CPA and CDA.

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

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(8) Note Payable to Related Party, Continued

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

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,219,120	\$ 362,022	\$ 1,581,142
2007	670,146	146,306	816,452
2008	687,058	129,394	816,452
2009	704,396	112,056	816,452
2010	722,172	94,280	816,452
2011 - 2015	<u>3,318,488</u>	<u>191,747</u>	<u>3,510,235</u>
	<u>\$ 7,321,380</u>	<u>\$ 1,035,805</u>	<u>\$ 8,357,185</u>

Changes in long-term liabilities for the years ended September 30, 2005 and 2004, are as follows:

	<u>Balance October 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2005</u>	<u>Due Within One Year</u>
Bonds payable:					
Airport 1998 Senior Series A	\$ 18,345,000	\$ -	\$ (350,000)	\$ 17,995,000	\$ 370,000
Seaport 1998 Senior Series A	30,965,000	-	(575,000)	30,390,000	615,000
Seaport 2005 Senior Series A	-	7,225,000	-	7,225,000	-
Note payable	8,091,422	-	(770,042)	7,321,380	1,219,120
Deferred amounts:					
Deferred costs of debt refunding	(1,255,322)	-	114,279	(1,141,043)	-
Discount on bonds	-	(124,270)	-	(124,270)	-
	56,146,100	7,100,730	(1,580,763)	61,666,067	2,204,120
Other:					
Compensated absences	<u>694,353</u>	<u>476,094</u>	<u>(508,485)</u>	<u>661,962</u>	<u>289,877</u>
	<u>\$ 56,840,453</u>	<u>\$ 7,576,824</u>	<u>\$ (2,089,248)</u>	<u>\$ 62,328,029</u>	<u>\$ 2,493,997</u>
	<u>Balance October 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2004</u>	<u>Due Within One Year</u>
Bonds payable:					
Airport 1998 Senior Series A	\$ 18,675,000	\$ -	\$ (330,000)	\$ 18,345,000	\$ 350,000
Seaport 1998 Senior Series A	31,510,000	-	(545,000)	30,965,000	575,000
Note payable	8,540,815	-	(449,393)	8,091,422	1,335,510
Deferred amounts:					
Deferred costs of debt refunding	(1,362,173)	-	106,851	(1,255,322)	-
	57,363,642	-	(1,217,542)	56,146,100	2,260,510
Other:					
Compensated absences	<u>747,857</u>	<u>513,407</u>	<u>(566,911)</u>	<u>694,353</u>	<u>311,931</u>
	<u>\$ 58,111,499</u>	<u>\$ 513,407</u>	<u>\$ (1,784,453)</u>	<u>\$ 56,840,453</u>	<u>\$ 2,572,441</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(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, 2005 and 2004, and the related receivable and payable balances, are as follows:

	<u>2005</u>			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
Commonwealth Development Authority	\$ -	\$ 178,891	\$ -	\$ -
Commonwealth Utilities Corporation	-	374,255	4,696,105	8,612
CNMI Government	-	136,194	-	1,100,877
Northern Mariana Islands Retirement Fund	-	1,849,847	-	-
Other	<u>12,667</u>	<u>-</u>	<u>41,996</u>	<u>-</u>
	<u>\$ 12,667</u>	<u>\$ 2,539,187</u>	<u>\$ 4,738,101</u>	<u>\$ 1,109,489</u>
	<u>2004</u>			
	<u>Revenues</u>	<u>Expenses</u>	<u>Receivables</u>	<u>Payables</u>
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	<u>12,335</u>	<u>-</u>	<u>37,066</u>	<u>-</u>
	<u>\$ 12,335</u>	<u>\$ 2,141,406</u>	<u>\$ 4,052,750</u>	<u>\$ 974,456</u>

A note payable to CDA amounted to \$7,321,380 and \$8,091,422 at September 30, 2005 and 2004, respectively. Interest expense on this note for the years ended September 30, 2005 and 2004 amounted to \$178,891 and \$194,584, respectively.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(10) Related Party Transactions, Continued

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 \$7,217,862 and \$6,254,093 as of September 30, 2005 and 2004, respectively.

The total cost of the project includes liquidated damages of \$125,000 at September 30, 2005 and 2004 representing CUC's share. In addition, it also includes \$44,034 already billed to CUC. 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. Of the total project cost, 29.4% is recorded as construction in progress and 70.6% is recorded as receivable from related party, noncurrent, at September 30, 2005 and 2004. The project was completed in February 2006.

The Seaport Division recorded accounts receivable amounting to \$41,996 and \$37,066 at September 30, 2005 and 2004, respectively, from a company in which a Board member has interest.

(11) Commitment and Contingency

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, 2005 and 2004, amounted to \$4,778,425 and \$4,703,892, respectively. Minimum future lease income is as follows:

<u>Year ending September 30,</u>	<u>Minimum Lease Income Due</u>
2006	\$ 1,767,149
2007	1,168,980
2008	931,143
2009	884,984
2010	858,605
2011 - 2015	4,030,333
2016 - 2020	4,317,534
2021 - 2025	2,774,453
2026 - 2030	<u>565,963</u>
	<u>\$ 17,299,144</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2005 and 2004

(11) Commitment and Contingency, Continued

Contingency

CPA incurred a combined loss before capital contributions and transfers from its two divisions of \$2,858,868 during the year ended September 30, 2005. 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) Explore non-harbor revenue generating options.

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

Effective October 4, 2005, Japan Airlines suspended flights to the CNMI.

On October 14, 2005, CPA entered into a settlement agreement and release with a vendor related to unpaid wharfage fees amounting to approximately \$2,688,000.

In January 2006, CPA entered into a settlement agreement in favor of a contractor related to the Tinian Airport Runway Project. The settlement included the unpaid portion of retention payable and other project costs amounting to \$2,063,650. The related liability has been recorded at September 30, 2005.

On February 21, 2006, CPA entered into a settlement agreement in favor of a contractor related to the Sewerline Project. Pursuant to the agreement, CPA has agreed to pay \$857,000 for the disputed claims. The related liability has been recorded at September 30, 2005.

On May 26, 2006, Fitch Ratings placed a Rating Watch Negative, BBB-, on CPA's Airport Revenue Bonds Senior Series A.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Net Assets
September 30, 2005

<u>ASSETS</u>	<u>Airport Division</u>	<u>Seaport Division</u>	<u>Elimination</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents	\$ 7,768,804	\$ 1,177,121	\$ -	\$ 8,945,925
Receivables:				
Grantor agencies	2,030,051	139,529	-	2,169,580
Operations, net	1,742,345	116,354	-	1,858,699
Receivable from related parties	-	41,996	-	41,996
Due from Seaport Division	126,512	-	(126,512)	-
Officers and employees	33,339	3,041	-	36,380
Prepaid expenses	162,930	5,730	-	168,660
Deferred bond issue cost, current portion	27,170	37,374	-	64,544
Investments, restricted for construction and debt service purposes	<u>2,957,086</u>	<u>17,670,630</u>	<u>-</u>	<u>20,627,716</u>
Total current assets	<u>14,848,237</u>	<u>19,191,775</u>	<u>(126,512)</u>	<u>33,913,500</u>
Noncurrent assets:				
Deferred bond issue cost	567,838	781,634	-	1,349,472
Receivable from related parties	4,696,105	-	-	4,696,105
Capital assets, net	<u>101,060,794</u>	<u>45,449,395</u>	<u>-</u>	<u>146,510,189</u>
Total noncurrent assets	<u>106,324,737</u>	<u>46,231,029</u>	<u>-</u>	<u>152,555,766</u>
	<u>\$ 121,172,974</u>	<u>\$ 65,422,804</u>	<u>\$ (126,512)</u>	<u>\$ 186,469,266</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current liabilities:				
Revenue bonds payable, current portion	\$ 370,000	\$ 615,000	\$ -	\$ 985,000
Note payable to related party, current portion	-	1,219,120	-	1,219,120
Contractors payable	2,461,425	1,711	-	2,463,136
Trade and other payables	1,348,140	7,768	-	1,355,908
Due to related parties	987,399	122,090	-	1,109,489
Due to Airport Division	-	126,512	(126,512)	-
Accrued expenses	298,745	253,867	-	552,612
Deferred income	11,925	-	-	11,925
Compensated absences, current portion	<u>260,781</u>	<u>29,096</u>	<u>-</u>	<u>289,877</u>
Total current liabilities	5,738,415	2,375,164	(126,512)	7,987,067
Compensated absences, net of current portion	331,904	40,181	-	372,085
Revenue bonds payable	17,625,000	35,734,687	-	53,359,687
Note payable to related party	<u>-</u>	<u>6,102,260</u>	<u>-</u>	<u>6,102,260</u>
Total liabilities	<u>23,695,319</u>	<u>44,252,292</u>	<u>(126,512)</u>	<u>67,821,099</u>
Commitment and contingency				
Net assets:				
Invested in capital assets, net of related debt	83,660,802	2,597,336	-	86,258,138
Restricted	2,957,086	17,670,630	-	20,627,716
Unrestricted	<u>10,859,767</u>	<u>902,546</u>	<u>-</u>	<u>11,762,313</u>
Total net assets	<u>97,477,655</u>	<u>21,170,512</u>	<u>-</u>	<u>118,648,167</u>
	<u>\$ 121,172,974</u>	<u>\$ 65,422,804</u>	<u>\$ (126,512)</u>	<u>\$ 186,469,266</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2005

	Airport Division	Seaport Division	Elimination	Total
Operating revenues:				
Aviation fees	\$ 7,323,419	\$ -	\$ -	\$ 7,323,419
Seaport fees	-	5,728,165	-	5,728,165
Concession and lease income	3,740,556	1,037,869	-	4,778,425
Other	<u>1,432,081</u>	<u>166,372</u>	-	<u>1,598,453</u>
	12,496,056	6,932,406	-	19,428,462
Less bad debts	<u>(455,113)</u>	-	-	<u>(455,113)</u>
Operating revenues, net	<u>12,040,943</u>	<u>6,932,406</u>	-	<u>18,973,349</u>
Operating expenses:				
Depreciation and amortization	6,313,727	2,456,989	-	8,770,716
Salaries and wages	4,939,003	661,363	-	5,600,366
Insurance	806,661	842,558	-	1,649,219
Employee benefits	1,437,842	185,628	-	1,623,470
Professional fees	513,675	127,856	-	641,531
Supplies	532,502	30,130	-	562,632
Contractual services	363,304	116,243	-	479,547
Utilities	333,842	40,413	-	374,255
Repairs and maintenance	233,703	42,460	-	276,163
Travel	185,191	43,013	-	228,204
Promotion and advertising	91,040	11,835	-	102,875
Training	54,679	-	-	54,679
Other	<u>389,943</u>	<u>38,498</u>	-	<u>428,441</u>
Total operating expenses	<u>16,195,112</u>	<u>4,596,986</u>	-	<u>20,792,098</u>
Operating (loss) income	<u>(4,154,169)</u>	<u>2,335,420</u>	-	<u>(1,818,749)</u>
Non-operating revenues (expenses):				
Passenger facility charges	1,335,183	-	-	1,335,183
Proceeds from insurance claims	-	300,000	-	300,000
Interest income	102,027	190,179	-	292,206
Interest expense	(650,354)	(2,259,761)	-	(2,910,115)
Amortization of bond issue costs	<u>(24,459)</u>	<u>(32,934)</u>	-	<u>(57,393)</u>
Total non-operating revenues (expenses), net	<u>762,397</u>	<u>(1,802,516)</u>	-	<u>(1,040,119)</u>
(Loss) income before capital contributions	(3,391,772)	532,904	-	(2,858,868)
Capital contributions	<u>10,605,135</u>	<u>186,411</u>	-	<u>10,791,546</u>
Change in net assets	7,213,363	719,315	-	7,932,678
Net assets - beginning	<u>90,264,292</u>	<u>20,451,197</u>	-	<u>110,715,489</u>
Net assets - ending	<u>\$ 97,477,655</u>	<u>\$ 21,170,512</u>	<u>\$ -</u>	<u>\$ 118,648,167</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2005

	Airport Division	Seaport Division	Elimination	Total
Cash flows from operating activities:				
Cash received from customers	\$ 11,563,342	\$ 7,239,457	\$ -	\$ 18,802,799
Cash payments to suppliers for goods and services	(2,495,621)	(1,272,859)	-	(3,768,480)
Cash payments to employees for services	(6,586,832)	(846,991)	-	(7,433,823)
Net cash provided by operating activities	<u>2,480,889</u>	<u>5,119,607</u>	<u>-</u>	<u>7,600,496</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(11,594,882)	(388,253)	-	(11,983,135)
Proceeds from insurance on capital assets	-	300,000	-	300,000
Capital contributions, net	11,808,354	109,580	-	11,917,934
Passenger facility charge receipts	1,335,183	-	-	1,335,183
Principal paid on revenue bond maturities	(350,000)	(575,000)	-	(925,000)
Payments on note payable to related party	-	(770,042)	-	(770,042)
Net proceeds from bond issuance	-	7,100,730	-	7,100,730
Interest paid on revenue bonds and note payable to related party	(1,135,660)	(2,226,435)	-	(3,362,095)
Net cash provided by capital and related financing activities	<u>62,995</u>	<u>3,550,580</u>	<u>-</u>	<u>3,613,575</u>
Cash flows from investing activities:				
Net change in restricted investments	(472,847)	(8,285,605)	-	(8,758,452)
Interest income	102,027	190,179	-	292,206
Net cash used for investing activities	<u>(370,820)</u>	<u>(8,095,426)</u>	<u>-</u>	<u>(8,466,246)</u>
Net change in cash and cash equivalents	2,173,064	574,761	-	2,747,825
Cash and cash equivalents at beginning of year	5,595,740	602,360	-	6,198,100
Cash and cash equivalents at end of year	<u>\$ 7,768,804</u>	<u>\$ 1,177,121</u>	<u>\$ -</u>	<u>\$ 8,945,925</u>
Reconciliation of operating (loss) income to net cash provided by operating activities:				
Operating (loss) income	\$ (4,154,169)	\$ 2,335,420	\$ -	\$ (1,818,749)
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation and amortization	6,313,727	2,456,989	-	8,770,716
Bad debts	455,113	-	-	455,113
(Increase) decrease in assets:				
Receivables - operations	(344,403)	311,993	-	(32,410)
Due from Seaport Division	(89,884)	-	89,884	-
Receivables - officers and employees	(5,641)	(12)	-	(5,653)
Prepaid expenses	(143,256)	(5,299)	-	(148,555)
Related parties	(680,421)	(4,930)	-	(685,351)
Increase (decrease) in liabilities:				
Accounts payable - trade and other	1,080,917	2,772	-	1,083,689
Related parties	119,397	15,636	-	135,033
Due to Airport Division	-	89,884	(89,884)	-
Accrued expenses	3,292	(79,282)	-	(75,990)
Deferred income	(44,957)	-	-	(44,957)
Compensated absences	(28,826)	(3,564)	-	(32,390)
Net cash provided by operating activities	<u>\$ 2,480,889</u>	<u>\$ 5,119,607</u>	<u>\$ -</u>	<u>\$ 7,600,496</u>

See Accompanying Independent Auditors' Report.