

COMMONWEALTH PORTS AUTHORITY

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

YEAR ENDED SEPTEMBER 30, 2006

COMMONWEALTH PORTS AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2006 AND 2005

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, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of CPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commonwealth Ports Authority as of September 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13, the 2005 financial statements have been restated.

The Management's Discussion and Analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth Ports Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Commonwealth Ports Authority's basic financial statements. The Combining Schedule of Net Assets, Combining Schedule of Revenues, Expenses and Changes in Net Assets and Combining Schedule of Cash Flows as of and for the year ended September 30, 2006 (pages 38 through 40) 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 Schedule of Net Assets, Combining Schedule of Revenues, Expenses and Changes in Net Assets and Combining Schedule of Cash Flows as of and for the year ended September 30, 2006 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 January 11, 2008, on our consideration of internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

January 11, 2008



COMMONWEALTH PORTS AUTHORITY

Main Office: SAIPAN INTERNATIONAL AIRPORT

P.O. BOX 501055 • SAIPAN • MP 96950-1055

Phone: (1-670) 664-3500 /1 FAX: (1-670) 234-5962

E-Mail Address: cpa.admin@saipan.com

SEAPORT: Phone (1-670) 664-3550 /1 FAX (1-670) 322-4710

E-Mail Address: cpa.seaport@saipan.com

MANAGEMENT'S 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 2006 that ended on September 30, 2006. Please read it in conjunction with the more detailed information contained within the accompanying financial statements.

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 appointed by the Governor to serve four-year terms governs the Authority. 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 155 employees on Saipan, 29 employees on Rota and 26 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, 2006, with selected comparative information to the fiscal years ended September 30, 2005 and 2004.

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 their useful lives. Further information is provided in the footnotes of the accompanying audited financial statements.

The financial statements of this annual report consist of three parts: 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.

FINANCIAL HIGHLIGHTS

Total assets for the airport and seaport operations combined in FY2006 increased by 8% or \$15,151,964 from \$186,469,266 in FY2005 to \$201,621,230 mainly due to substantial progress made in projects undergoing construction.

Net assets for the airport and seaport operations combined in FY2006 increased by 12% or \$13,717,492 from \$118,348,167 in FY2005 to \$132,065,659. Net assets represent the amount that total assets exceed total liabilities.

Enplanements (air passenger departures) declined by 11% and deplanements (air passenger arrivals) declined by 11% during FY2006 from the prior year due to the suspension of Japan Airlines flights on October 4, 2005 and the reduction of Continental Airlines flights to the CNMI in December 2005.

Seaport inbound cargo decreased by 13% and outbound cargo decreased by 6% in FY2006 from the prior year due to the closure of several garment factories and a decline in orders and inbound commodities from existing factories.

Operating revenues for the airport and seaport operations combined in FY2006 increased by 3% or \$528,593 from \$19,428,462 in FY2005 to \$19,957,055. Airport operating revenues decreased by 12% or \$1,544,951 from \$12,496,056 in FY2005 to \$10,951,105. Seaport operating revenues increased by 30% or \$2,073,544 from \$6,932,406 in FY2005 to \$9,005,950. The increase is attributed to the wharfage settlement payment of \$2,688,000 received from Mobil Oil recorded in the current year.

Operating expenses (excluding depreciation and amortization) for the airport and seaport operations combined in FY2006 increased by 16% or \$1,942,530 from \$12,021,382 in FY2005 to \$13,963,912 due to increases in the retirement benefit rate from 24% to 36.773%, increases in insurance premiums by 17%, contractual services by 135%, utilities by 34% and professional services by 4%, with a combined total increase of 16% in operating costs.

Due to a revenue shortfall of \$315,365 for the airport division at September 30, 2006, the Authority was not in compliance with its 1998 Airport Bond Indenture Agreement (the Agreement). The Authority will enforce revenue enhancement and cost containment programs to comply with the Agreement.

Statements of Net Assets

Assets	2006	2005	Variance	%	2004
Current assets	\$ 16,366,050	\$ 13,221,240	\$ 3,144,810	24%	\$ 11,927,912
Investments, restricted for construction and debt service purposes	<u>22,572,954</u>	<u>20,627,716</u>	<u>1,945,238</u>	9%	<u>11,869,264</u>
Noncurrent assets:					
Deferred bond issue cost	1,595,167	1,414,016	181,151	13%	1,406,865
Receivable from related parties	4,700,947	4,696,105	4,842	0%	4,015,684
Capital assets, net	<u>156,386,112</u>	<u>146,510,189</u>	<u>9,875,923</u>	<u>7%</u>	<u>143,486,038</u>
Total noncurrent assets	<u>162,682,226</u>	<u>152,620,310</u>	<u>10,061,916</u>	7%	<u>148,908,587</u>
	\$ <u>201,621,230</u>	\$ <u>186,469,266</u>	\$ <u>15,151,964</u>	8%	\$ <u>172,705,763</u>

Statements of Net Assets, Continued

Liabilities and Net Assets	2006	2005	Variance	%	2004
Current liabilities:					
Revenue bonds payable, current portion	\$ 1,050,000	\$ 985,000	\$ 65,000	7%	\$ 925,000
Note payable to related party, current portion	1,244,439	1,219,120	25,319	2%	1,335,510
Contractors payable	4,217,463	2,463,136	1,754,327	71%	3,217,663
Trade and other payables	138,812	1,355,908	(1,217,096)	-90%	272,219
Due to related parties	2,229,182	1,109,489	1,119,693	101%	974,456
Accrued expenses	2,242,706	852,612	1,390,094	163%	628,602
Deferred income	10,333	11,925	(1,592)	-13%	56,882
Compensated absences, current portion	<u>284,386</u>	<u>289,877</u>	<u>(5,491)</u>	-2%	<u>311,931</u>
Total current liabilities	11,417,321	8,287,067	3,130,254	38%	7,722,263
Compensated absences, net of current portion	356,566	372,085	(15,519)	-4%	382,421
Revenue bonds payable	52,349,570	53,359,687	(1,010,117)	-2%	47,129,678
Note payable to related party	<u>5,432,114</u>	<u>6,102,260</u>	<u>(670,146)</u>	-11%	<u>6,755,912</u>
Total liabilities	<u>69,555,571</u>	<u>68,121,099</u>	<u>1,434,472</u>	2%	<u>61,990,274</u>
Net assets:					
Invested in capital assets, net of related debt	97,905,156	86,258,138	11,647,018	14%	88,811,347
Restricted	22,572,954	20,627,716	1,945,238	9%	11,869,264
Unrestricted	<u>11,587,549</u>	<u>11,462,313</u>	<u>125,236</u>	1%	<u>10,034,878</u>
Total net assets	<u>132,065,659</u>	<u>118,348,167</u>	<u>13,717,492</u>	12%	<u>110,715,489</u>
	\$ <u>201,621,230</u>	\$ <u>186,469,266</u>	\$ <u>15,151,964</u>	8%	\$ <u>172,705,763</u>

Statements of Revenues, Expenses and Changes in Net Assets

	2006	2005	Variance	%	2004
Operating revenues, net	\$ 19,426,102	\$ 18,973,349	\$ 452,753	2%	\$ 17,926,196
Operations expenses	<u>13,963,912</u>	<u>12,021,382</u>	<u>1,942,530</u>	16%	<u>12,053,311</u>
Income before depreciation	5,462,190	6,951,967	(1,489,777)	-21%	5,872,885
Depreciation	<u>9,614,293</u>	<u>8,770,716</u>	<u>843,577</u>	10%	<u>8,146,364</u>
Loss after depreciation	(4,152,103)	(1,818,749)	(2,333,354)	128%	(2,273,479)
Non-operating expenses, net	<u>(415,225)</u>	<u>(1,340,119)</u>	<u>924,894</u>	-69%	<u>(3,153,285)</u>
Loss before capital contributions	(4,567,328)	(3,158,868)	(1,408,460)	45%	(5,426,764)
Capital contributions	<u>18,284,820</u>	<u>10,791,546</u>	<u>7,493,274</u>	69%	<u>9,687,205</u>
Change in net assets	\$ <u>13,717,492</u>	\$ <u>7,632,678</u>	\$ <u>6,084,814</u>	80%	\$ <u>4,260,441</u>
Net assets - beginning	\$ 118,348,167	\$ 110,715,489	\$ 7,632,678	7%	\$ 106,455,048
Change in net assets	<u>13,717,492</u>	<u>7,632,678</u>	<u>6,084,814</u>	80%	<u>4,260,441</u>
Net assets - ending	\$ <u>132,065,659</u>	\$ <u>118,348,167</u>	\$ <u>13,717,492</u>	12%	\$ <u>110,715,489</u>

Capital Assets

At September 30, 2006, CPA had \$156,386,112 invested in capital assets, net of depreciation where applicable, including land, runway, terminal and harbor facilities and equipment, fire and rescue equipment, general transportation, other machinery and equipment and numerous projects under construction. This represents a net increase of \$9,875,923 or 7% over last year.

	2006	2005	2004
Runway and improvements	\$ 69,809,590	\$ 46,506,820	\$ 40,601,315
Other improvements	16,197,486	12,820,613	12,640,720
Terminal facilities and equipment	78,675,814	73,673,085	71,990,045
Harbor facilities	61,997,300	61,997,300	61,826,127
Grounds maintenance and shop equipment	506,735	506,735	507,091
Fire and rescue equipment	10,481,756	9,951,048	3,327,521
Office furniture and fixtures	824,171	840,044	816,448
General transportation	879,641	745,482	736,462
Other	<u>871,469</u>	<u>605,330</u>	<u>601,929</u>
	240,243,962	207,646,457	193,047,658
Less accumulated depreciation	<u>(107,254,453)</u>	<u>(97,719,142)</u>	<u>(88,948,782)</u>
Total capital assets being depreciated	132,989,509	109,927,315	104,098,876
Construction in progress	22,932,174	36,118,445	38,922,733
Land	<u>464,429</u>	<u>464,429</u>	<u>464,429</u>
Total capital assets, net	\$ <u>156,386,112</u>	\$ <u>146,510,189</u>	\$ <u>143,486,038</u>

See Note 6 to the financial statements for more information on CPA's capital assets.

1998 Airport Revenue Bonds

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

Payments for the Airport bond are current. The annual Airport bond payment is \$1.4 million. The long-term portion of the bond balance as of September 30, 2006 is \$17,230,000.

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

Airport Restricted Investments

Restricted investments for airport construction and debt service purposes represent the unused proceeds of the 1998 Airport Revenue Bonds deposited with the Trustee. The balances as of September 30, 2006 are:

Bond Reserve Fund	\$ 1,719,387
Construction Fund	678,614
Bond Fund	228,787
Maintenance and Operations	<u>1,355,526</u>
Total	\$ <u>3,982,314</u>

1998 Seaport Revenue Bonds

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

Payments for the 1998 Seaport bond are current. The annual 1998 Seaport bond payment is \$1.7 million. The long-term portion of the bond balance as of September 30, 2006 is \$29,120,000.

The seaport bond proceeds were partly used to refund an outstanding \$22,470,000 1995 Series A tax-exempt seaport revenue bonds. The refunding consolidated existing debt with new debt issued to finance various seaport projects and to reduce total debt service payments in the future. The reacquisition price exceeded the net carrying amount of the old debt by \$1,345,593 that was netted out against the new debt and amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of \$1,724,777 and a decrease of \$6,983,345 in debt service payments in the future.

2005 Seaport Revenue Bonds

On September 21, 2005, the Authority issued another Senior Series A tax-exempt revenue bond in the amount of \$7,225,000 for the purpose of financing primarily the paving of the container yard area of the seaport. Pursuant to Section 2.04 (A)(9) of the 1998 Senior Series A Seaport Revenue Bond Indenture Agreement, the Authority entered into a Second Supplemental Indenture for the above 2005 Senior Series A bonds payable at a semi-annual interest rate of 5.5% on March 15 and September 15 of each year. The initial payment of the bond will commence in fiscal year 2008 at \$150,000.

Seaport Restricted Investments

Bond Reserve Fund	\$ 3,412,011
Supplemental Reserve Fund	8,205,849
Reimbursement Fund	5,444
Bond Fund	553,729
Maintenance and Operation	171,832
Construction Fund	6,238,588
Cost of Issuance	<u>3,187</u>
Total	<u>\$ 18,590,640</u>

FY2006 Bond/Debt Ratio Noncompliance

	Airport	Seaport
Total revenues	\$ 11,611,487	\$ 9,732,910
Operating expenses	<u>11,926,852</u>	<u>2,568,013</u>
Net revenue (loss)	\$ (315,365)	\$ 7,164,897
Net revenue requirement	\$ 1,853,906	\$ 3,727,958
Debt service coverage ratio	(0.17)	1.92

Total revenues and operating expenses in the above calculation are as defined in the bond covenants.

The decrease in revenue in FY2006 caused the Authority to be noncompliant with the revenue requirements imposed by the Airport Bond Indenture provisions. The Authority was cited by our auditors for failure to collect adequate FY2006 revenues required by the bond covenants.

In accordance with bond covenant provisions; however, the Authority will enforce revenue enhancement and cost containment programs such as increasing airport and seaport fees and reducing contractual services in FY2008 to be in compliance with the revenue requirements for the Airport and Seaport.

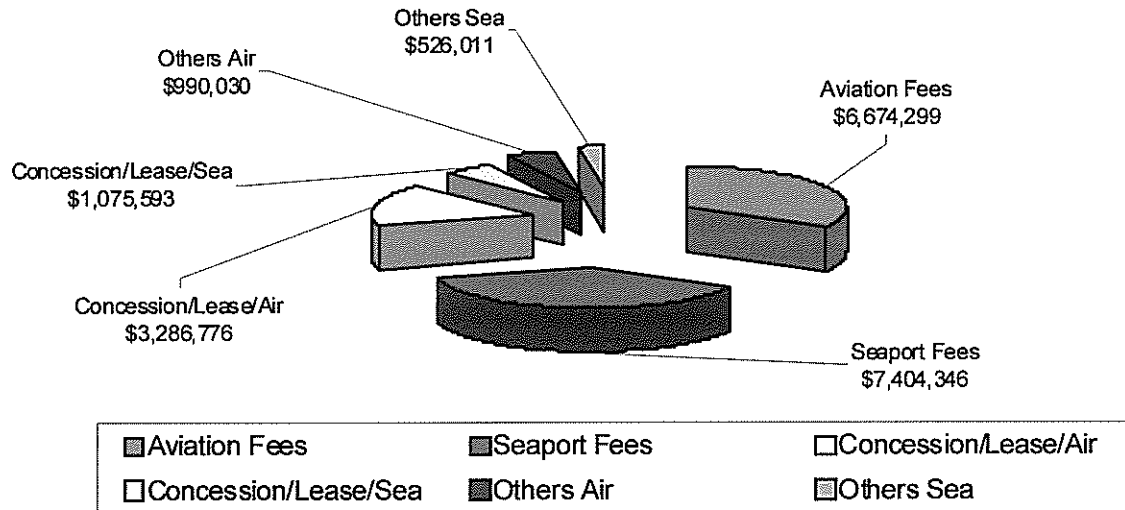
See Note 7 to the financial statements for more information on CPA's revenue bonds.

Notes Payable to Commonwealth Development Authority

The Authority 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 \$6,676,553 as of September 30, 2006. The CDA promissory note is subordinate to the Authority's Seaport bond obligation. The Authority is current with its payments to CDA.

Operating Revenues (Combined)

	FY2006	FY2005	Change	%	FY2004
Airport revenues	\$ 10,951,105	\$ 12,496,056	\$ (1,544,951)	-12%	\$ 12,369,455
Seaport revenues	<u>9,005,950</u>	<u>6,932,406</u>	<u>2,073,544</u>	30%	<u>5,987,403</u>
Total operating revenues	\$ <u>19,957,055</u>	\$ <u>19,428,462</u>	\$ <u>528,593</u>	-3%	\$ <u>18,356,858</u>

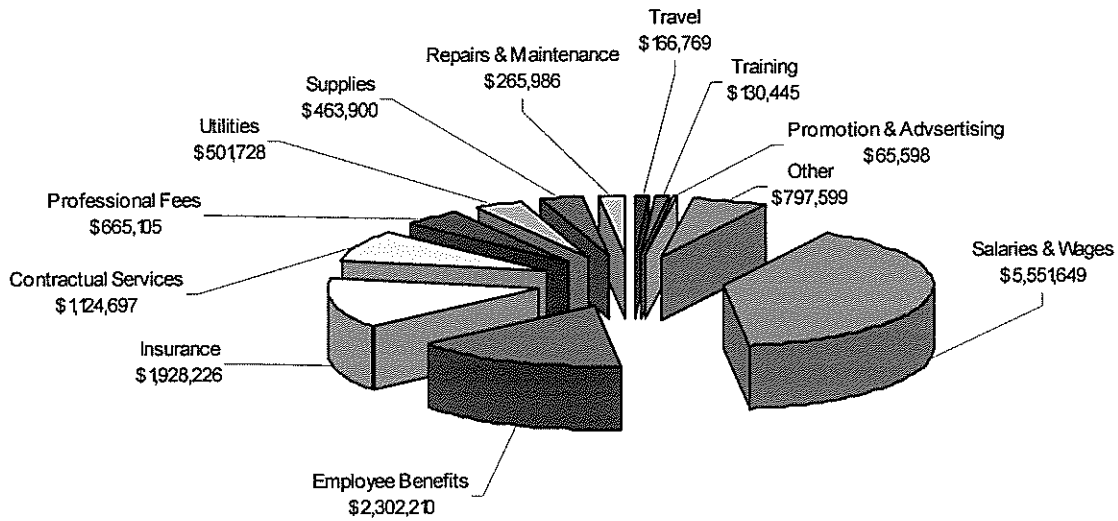


Airport revenues declined by 12% or \$1,544,951 overall when compared to FY2005 mainly due to a drastic drop in air passenger revenues when Japan Airlines pulled out on October 4, 2005 and Continental Airlines reduced their flights in December 2005. Seaport revenues increased by 30% or \$2,073,544 overall when compared to FY2005. The increase is due to the wharfage settlement payment received from Mobil Oil recorded in the current year.

Concession revenues dropped by 9% or \$416,056 over FY2005 due to the decrease in passengers when Japan Airlines pulled out and Continental Airlines reduced their flights in FY2006.

Operating Expenses (Combined)

	FY2006	FY2005	Change	%	FY2004
Personnel costs	\$ 7,853,859	\$ 7,223,836	\$ 630,023	9%	\$ 7,633,539
Operations expenses	<u>6,110,053</u>	<u>4,797,546</u>	<u>1,312,507</u>	27%	<u>4,419,772</u>
Total operating expenses	\$ <u>13,963,912</u>	\$ <u>12,021,382</u>	\$ <u>1,942,530</u>	16%	\$ <u>12,053,311</u>

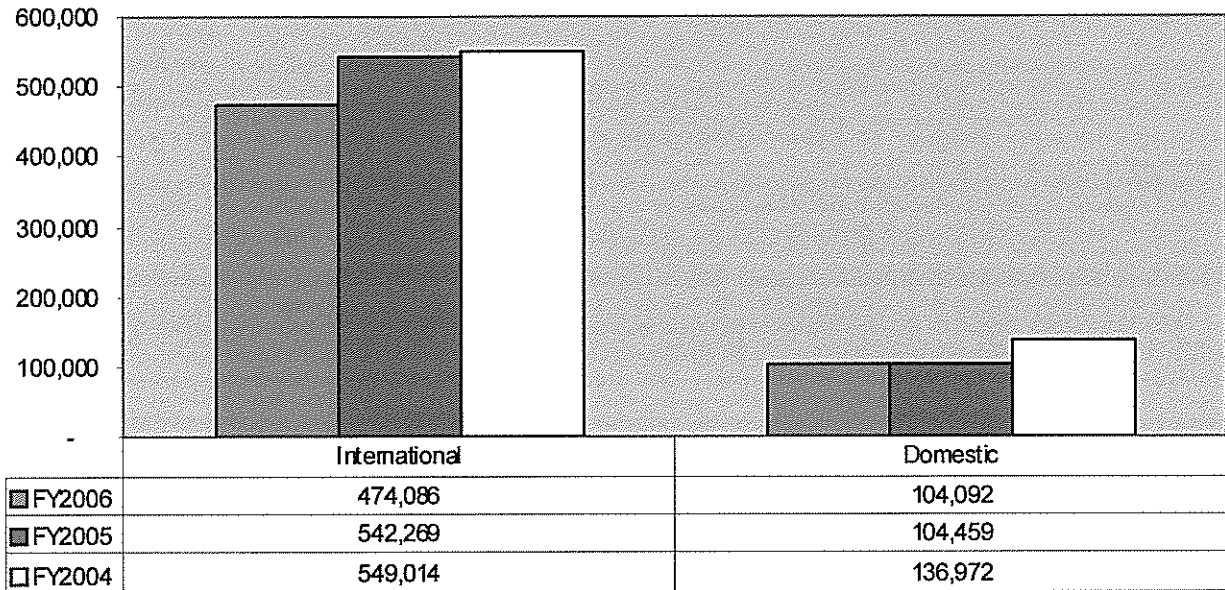


Salaries & Wages	Employee Benefits	Insurance	Contractual Services
Professional Fees	Utilities	Supplies	Repairs & Maintenance
Travel	Training	Promotion & Advertising	Other

Operating expenses (excluding depreciation and amortization), for the airport and seaport operations combined in FY 2006 increased by 16% or \$1,942,530 from \$12,021,382 in FY2005 to \$13,963,912 due to the increase in the retirement benefit rate from 24% to 36.773%, insurance premiums by 17%, contractual services by 135%, utilities by 34% and professional services by 4%.

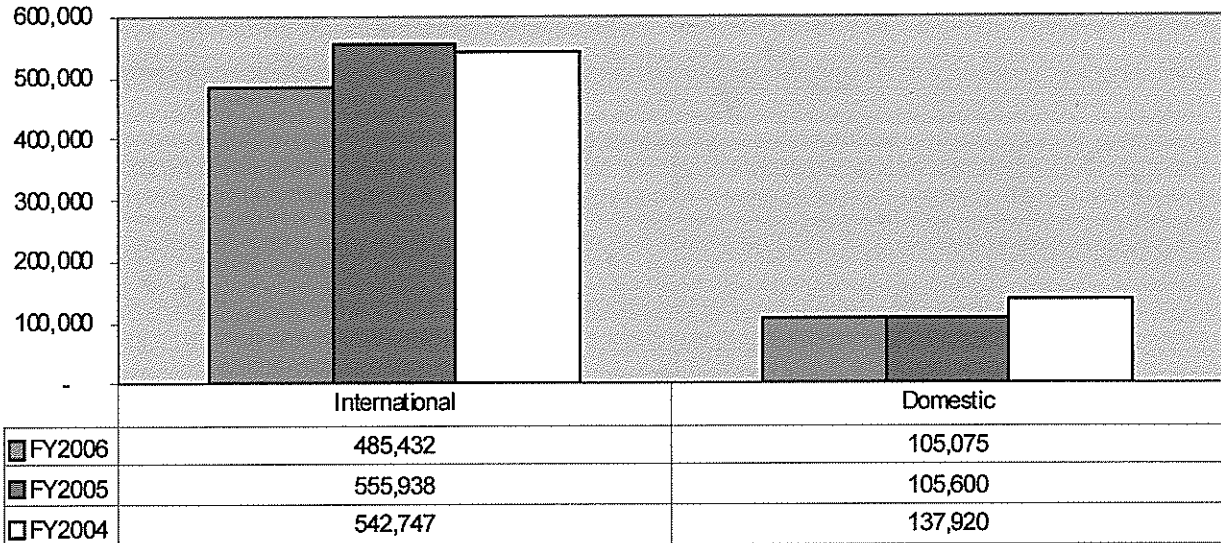
Airport Deplanements or Arrivals (Number of Passengers)

FY2006	FY2005	Change	%	FY2004
578,178	646,728	-68,550	-11%	685,986



Airport Enplanements or Departures (Number of Passengers)

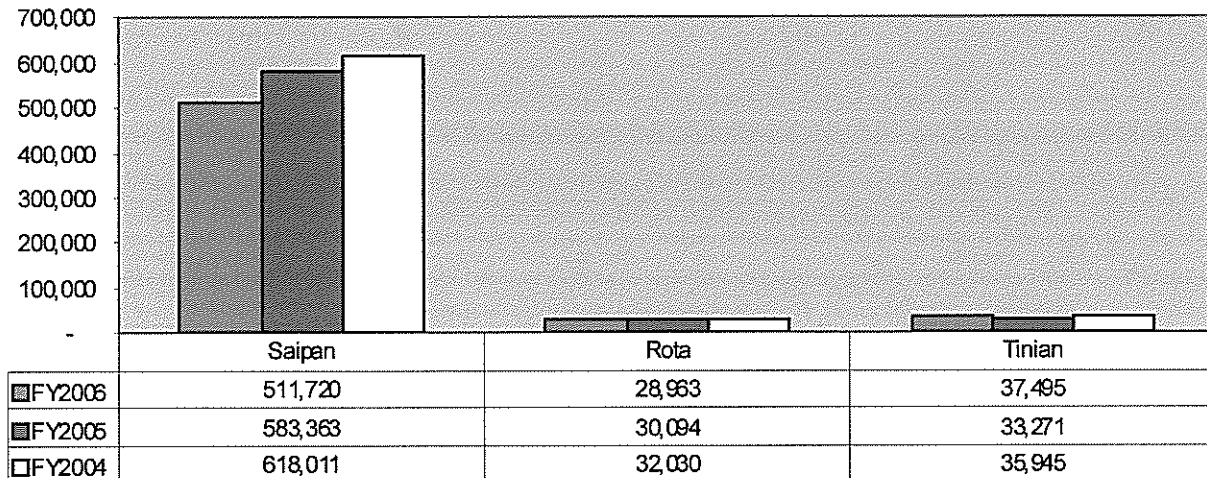
FY2006	FY2005	Change	%	FY2004
590,507	661,538	-71,031	-11%	680,667



Deplanement and enplanement passenger levels decreased by 11% or 68,550 and 71,031 passengers, respectively, in FY2006 as compared to 2005. The decrease is due to the suspension of Japan Airlines flights on October 4, 2005 and the reduction of Continental Airlines flights in December 2005.

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

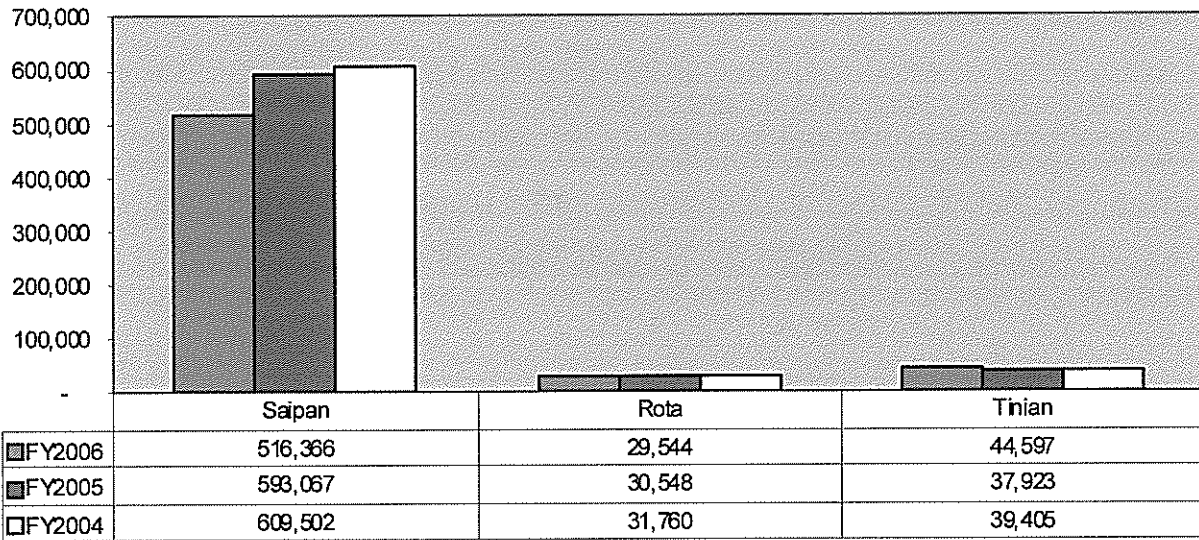
	FY2006	FY2005	Change	%	FY2004
Saipan	511,720	583,363	-71,643	-12%	618,011
Rota	28,963	30,094	-1,131	-4%	32,030
Tinian	37,495	33,271	4,224	13%	35,945
Total	<u>578,178</u>	<u>646,728</u>	<u>-68,550</u>	-11%	<u>685,986</u>



Saipan Airport's deplanements or passenger arrivals dropped by 12% or 71,643 passengers in FY2006 compared to FY2005. Rota Airport's deplanements dropped by 4% or 1,131 passengers in FY 2006 compared to FY2005. Tinian Airport's deplanements increased by 13% or 4,224 passengers in FY 2006 compared to FY 2005 due to an increase from Taga Air charter services.

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

	FY2006	FY2005	Change	%	FY2004
Saipan	516,366	593,067	-76,701	-13%	609,502
Rota	29,544	30,548	-1,004	-3%	31,760
Tinian	<u>44,597</u>	<u>37,923</u>	<u>6,674</u>	18%	<u>39,405</u>
Total	<u>590,507</u>	<u>661,538</u>	<u>-71,031</u>	-11%	<u>680,667</u>

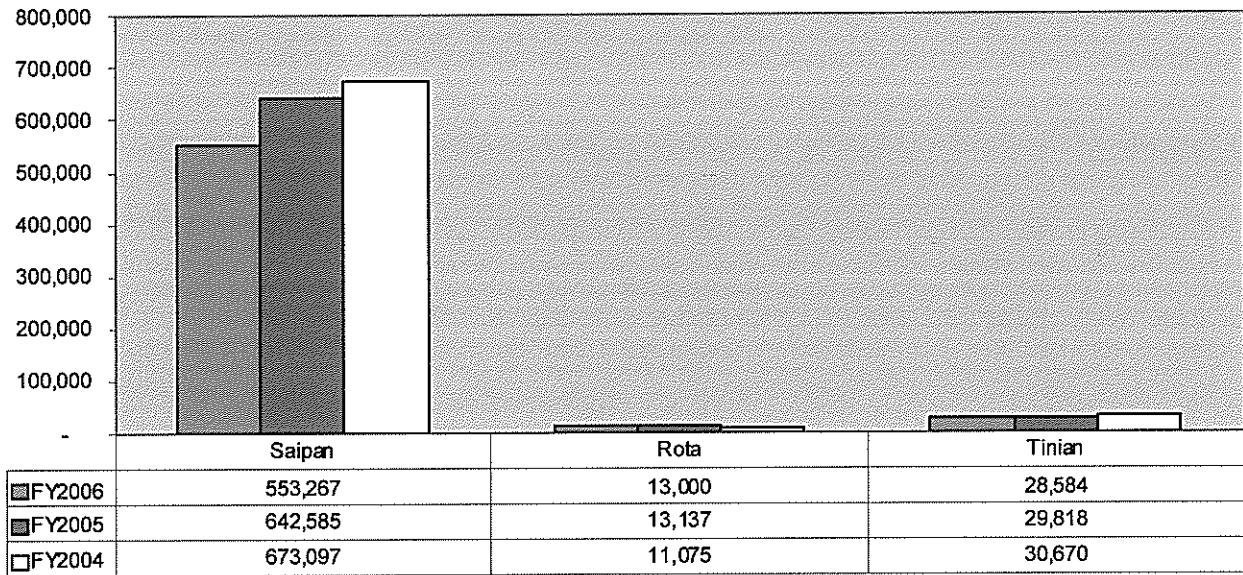


Saipan Airport's enplanements or passenger departures dropped by 13% or 76,701 passengers in FY2006 compared to FY2005. Rota Airport's enplanements dropped by 3% or 1,004 passengers in FY 2006 compared to FY2005. Tinian Airport's enplanements increased by 18% or 6,674 passengers in FY 2006 compared to FY 2005 due to an increase from Taga Air charter services.

Seaport Inbound Cargo Revenue Tons

	FY2006	FY2005	Change	%	FY2004
Saipan	553,267	642,585	-89,318	-14%	673,097
Rota	13,000	13,137	-137	-1%	11,075
Tinian	<u>28,584</u>	<u>29,818</u>	<u>-1,234</u>	-4%	<u>30,670</u>
Total	<u>594,851</u>	<u>685,540</u>	<u>-90,689</u>	-13%	<u>714,842</u>

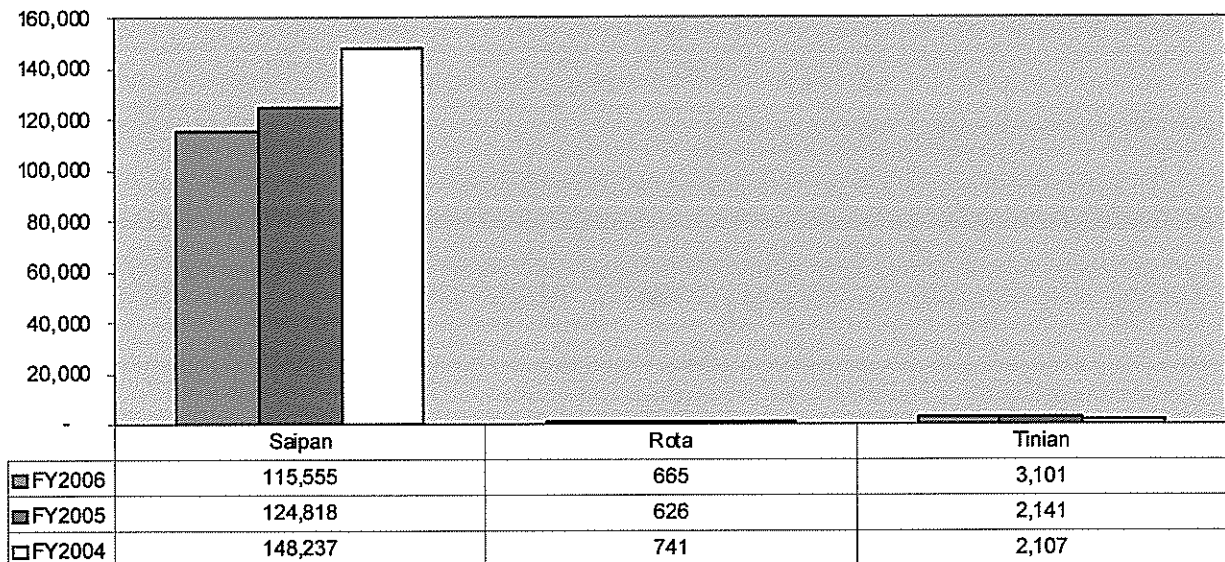
Seaport Inbound Cargo Revenue Tons, Continued



Seaport inbound cargo in terms of revenue tonnage dropped by 13% or 90,689 revenue tons due to the closure of several garment factories and a decline in orders and inbound commodities from existing factories.

Seaport Outbound Cargo Revenue Tons

	FY2006	FY2005	Change	%	FY2004
Saipan	115,555	124,818	-9,263	-7%	148,237
Rota	665	626	39	6%	741
Tinian	<u>3,101</u>	<u>2,141</u>	<u>960</u>	45%	<u>2,107</u>
Total	<u>119,321</u>	<u>127,585</u>	<u>-8,264</u>	-6%	<u>151,085</u>



Seaport outbound cargo in terms of revenue tonnage dropped by 6% or 8,264 revenue tons due to the closure of several garment factories and a decline in orders from existing factories.

Contacting CPA's Financial Management

This financial report is designed to provide a general overview of CPA's finances and to demonstrate its accountability for the monies received. If you have questions about this report, or need additional information, contact CPA's Acting Comptroller at:

Commonwealth Ports Authority
P.O. Box 501055
Saipan, MP 96950-1055

Or, call (670) 664-3524 or email at cpa.plantacct@pticom.com.

COMMONWEALTH PORTS AUTHORITY

**Statements of Net Assets
September 30, 2006 and 2005**

<u>ASSETS</u>	<u>2006</u>	<u>2005</u> <u>(As Restated)</u>
Current assets:		
Cash and cash equivalents	\$ 11,458,315	\$ 8,945,925
Receivables:		
Grantor agencies	2,805,523	2,169,580
Operations, net	1,940,737	1,858,699
Related parties	45,616	41,996
Officers and employees	38,250	36,380
Prepaid expenses	77,609	168,660
Investments, restricted for construction and debt service purposes	<u>22,572,954</u>	<u>20,627,716</u>
Total current assets	<u>38,939,004</u>	<u>33,848,956</u>
Noncurrent assets:		
Deferred bond issue costs	1,595,167	1,414,016
Receivable from related party	4,700,947	4,696,105
Capital assets, net	<u>156,386,112</u>	<u>146,510,189</u>
Total noncurrent assets	<u>162,682,226</u>	<u>152,620,310</u>
	<u>\$ 201,621,230</u>	<u>\$ 186,469,266</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Revenue bonds payable, current portion	\$ 1,050,000	\$ 985,000
Note payable to related party, current portion	1,244,439	1,219,120
Contractors payable	4,217,463	2,463,136
Trade and other payables	138,812	1,355,908
Due to related parties	2,229,182	1,109,489
Accrued expenses	2,242,706	852,612
Deferred income	10,333	11,925
Compensated absences, current portion	<u>284,386</u>	<u>289,877</u>
Total current liabilities	11,417,321	8,287,067
Compensated absences, net of current portion	356,566	372,085
Revenue bonds payable	52,349,570	53,359,687
Note payable to related party	<u>5,432,114</u>	<u>6,102,260</u>
Total liabilities	<u>69,555,571</u>	<u>68,121,099</u>
Commitment and contingencies		
Net assets:		
Invested in capital assets, net of related debt	97,905,156	86,258,138
Restricted	22,572,954	20,627,716
Unrestricted	<u>11,587,549</u>	<u>11,462,313</u>
Total net assets	<u>132,065,659</u>	<u>118,348,167</u>
	<u>\$ 201,621,230</u>	<u>\$ 186,469,266</u>

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

**Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u> <u>(As Restated)</u>
Operating revenues:		
Aviation fees	\$ 6,674,299	\$ 7,323,419
Seaport fees	7,404,346	5,728,165
Concession and lease income	4,362,369	4,778,425
Other	<u>1,516,041</u>	<u>1,598,453</u>
	19,957,055	19,428,462
Less bad debts	<u>(530,953)</u>	<u>(455,113)</u>
Operating revenues, net	<u>19,426,102</u>	<u>18,973,349</u>
Operating expenses:		
Depreciation and amortization	9,614,293	8,770,716
Salaries and wages	5,551,649	5,600,366
Employee benefits	2,302,210	1,623,470
Insurance	1,928,226	1,649,219
Contractual services	1,124,697	479,547
Professional fees	665,105	641,531
Utilities	501,728	374,255
Supplies	463,900	562,632
Repairs and maintenance	265,986	276,163
Travel	166,769	228,204
Training	130,445	54,679
Promotion and advertising	65,598	102,875
Other	<u>797,599</u>	<u>428,441</u>
Total operating expenses	<u>23,578,205</u>	<u>20,792,098</u>
Operating loss	<u>(4,152,103)</u>	<u>(1,818,749)</u>
Non-operating revenues (expenses):		
Passenger facility charges	2,315,891	1,335,183
Net proceeds from insurance claims	127,717	-
Interest income	941,481	292,206
Interest expense	(3,733,379)	(2,910,115)
Amortization of bond issue costs	<u>(66,935)</u>	<u>(57,393)</u>
Total non-operating expenses, net	<u>(415,225)</u>	<u>(1,340,119)</u>
Loss before capital contributions	(4,567,328)	(3,158,868)
Capital contributions	<u>18,284,820</u>	<u>10,791,546</u>
Change in net assets	13,717,492	7,632,678
Net assets at beginning of year	<u>118,348,167</u>	<u>110,715,489</u>
Net assets at end of year	<u>\$ 132,065,659</u>	<u>\$ 118,348,167</u>

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

**Statements of Cash Flows
Years Ended September 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 19,333,475	\$ 18,802,799
Cash payments to suppliers for goods and services	(5,899,929)	(3,768,480)
Cash payments to employees for services	<u>(7,874,869)</u>	<u>(7,433,823)</u>
Net cash provided by operating activities	<u>5,558,677</u>	<u>7,600,496</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(17,735,890)	(11,983,135)
Proceeds from insurance on capital assets	1,300,000	300,000
Capital contributions received	17,648,877	11,917,934
Passenger facility charge receipts	2,315,891	1,335,183
Principal paid on revenue bond maturities	(985,000)	(925,000)
Payments on note payable to related party	(644,827)	(770,042)
Net proceeds from bond issuance	-	7,100,730
Bond issue costs	(248,085)	-
Interest paid on revenue bonds and note payable to related party	<u>(3,693,496)</u>	<u>(3,362,095)</u>
Net cash (used for) provided by capital and related financing activities	<u>(2,042,530)</u>	<u>3,613,575</u>
Cash flows from investing activities:		
Net change in restricted investments	(1,945,238)	(8,758,452)
Interest income	<u>941,481</u>	<u>292,206</u>
Net cash used for investing activities	<u>(1,003,757)</u>	<u>(8,466,246)</u>
Net change in cash and cash equivalents	2,512,390	2,747,825
Cash and cash equivalents at beginning of year	<u>8,945,925</u>	<u>6,198,100</u>
Cash and cash equivalents at end of year	<u>\$ 11,458,315</u>	<u>\$ 8,945,925</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (4,152,103)	\$ (1,818,749)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	9,614,293	8,770,716
Bad debts	530,953	455,113
(Increase) decrease in assets:		
Receivables - operations	(612,991)	(32,410)
Receivables - officers and employees	(1,870)	(5,653)
Prepaid expenses	91,051	(148,555)
Receivables - related parties	(8,462)	(685,351)
Increase (decrease) in liabilities:		
Accounts payable - trade and other	(1,217,096)	1,083,689
Accounts payable - related parties	1,119,693	135,033
Accrued expenses	217,811	(75,990)
Deferred income	(1,592)	(44,957)
Compensated absences	<u>(21,010)</u>	<u>(32,390)</u>
Net cash provided by operating activities	<u>\$ 5,558,677</u>	<u>\$ 7,600,496</u>

See accompanying notes to financial statements.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(1) Organization

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

(2) Summary of Significant Accounting Policies

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

Basis of Accounting

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

Budgets

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

Concentrations of Credit Risk

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

At September 30, 2006 and 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, 2006 and 2005

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

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

Capitalization of Interest

CPA capitalizes interest in order to recognize all costs associated with the non-contributed airport and seaport construction projects based on CPA's weighted average borrowing rate. During the years ended September 30, 2006 and 2005, \$-0- and \$566,259, respectively, of eligible interest expense was capitalized. No interest is capitalized for projects financed with grant proceeds or Passenger Facility Charges.

Investments

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

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated at an amount that management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the 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, 2006 and 2005

(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 36.77% (24% in fiscal year 2005) of annual covered payroll. The contribution requirements of plan members and CPA are established and may be amended by the Fund's Board of Trustees. CPA's recorded contributions to the Fund for the years ended September 30, 2006, 2005 and 2004 were \$2,084,913, \$1,849,847 and \$1,424,747, 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:

- Invested in capital assets net of related debt; capital assets, net of accumulated depreciation, plus deferred bond issuance cost, less outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
 - Nonexpendable - Net assets subject to externally imposed stipulations that CPA maintain them permanently. For the years ended September 30, 2006 and 2005, 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, 2006 and 2005

(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, 2006 and 2005 is \$640,952 and \$661,962, 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 2006, CPA implemented the following pronouncements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets when service utility has declined significantly and unexpectedly.
- GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment to NCGA Statement 1*, which improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB Statement No. 34.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment to GASB Statement No. 34)*, which requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets.
- GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes guidance for state and local governmental employers on accounting and financial reporting for termination of benefits.
- GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies the requirements of GASB Statement Nos. 27 and 45 for recognition of pension and other postemployment benefit expenditures/expense and liabilities by cost-sharing employers.

The implementation of these pronouncements did not have a material impact on the accompanying 2006 financial statements.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2005. 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 Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other postemployment benefits expenses 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, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of CPA.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. The provisions of this Statement are effective for periods beginning after December 15, 2006. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of CPA.

Estimates

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

Reclassification

Certain 2005 balances in the accompanying financial statements have been reclassified to conform to the 2006 presentation.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements September 30, 2006 and 2005

(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.

As of September 30, 2006 and 2005, total cash and cash equivalents were \$11,458,315 and \$8,945,925, respectively, and the corresponding bank balances were \$11,577,170 and \$9,083,449, respectively. Of the bank balance amounts, \$10,508,967 and \$7,924,365, respectively, are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amounts of \$1,068,203 and \$1,159,084, 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, 2006 and 2005. As of September 30, 2006 and 2005, bank deposits in the amount of \$100,000 were FDIC insured. CNMI law does not require component unit funds to be collateralized and thus CPA's funds, in excess of FDIC insurance, are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

COMMONWEALTH PORTS AUTHORITY

**Notes to Financial Statements
September 30, 2006 and 2005**

(3) Deposits and Investments, Continued

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>2006</u>	<u>2005</u>
<u>Airport Division</u>		
Bond Reserve Fund	\$ 1,719,387	\$ 1,655,719
Construction Fund	678,614	653,485
Bond Fund	228,787	198,789
Maintenance and Operation	<u>1,355,526</u>	<u>449,093</u>
	<u>3,982,314</u>	<u>2,957,086</u>
<u>Seaport Division</u>		
Bond Reserve Fund	3,412,011	3,285,667
Supplemental Reserve Fund	8,205,849	6,991,329
Reimbursement Fund	5,444	5,233
Bond Fund	553,729	870,444
Maintenance and Operation	171,832	263,140
Construction Fund	6,238,588	6,007,577
Cost of Issuance	<u>3,187</u>	<u>247,240</u>
	<u>18,590,640</u>	<u>17,670,630</u>
	\$ <u>22,572,954</u>	\$ <u>20,627,716</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;
- 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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(3) Deposits and Investments, Continued

Investments, Continued

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, CPA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. CPA's investments are held and administered by CPA's trustees in accordance with various trustee agreements and bond indentures. Based on negotiated trust and custody contracts, all of these investments were held by the counterparty, or by its trust department or agent but not in CPA's name by CPA's custodial financial institutions at September 30, 2006 and 2005.

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, 2006 and 2005, there were no investments in any one issuer that exceeded 5% of total investments.

As of September 30, 2006 and 2005, investments at fair value consist of investments in U.S. Government money market placements.

(4) Receivables From Federal Grantor Agencies

Receivables from federal grantor agencies as of September 30, 2006 and 2005, are as follows:

<u>U.S. Department of Transportation</u> <u>Federal Aviation Administration</u>	<u>2006</u>	<u>2005</u>
Saipan International Airport, AIP Project No. 3-69-0002-31/32/50/53	\$ 30,662	\$ 11,210
Saipan International Airport, AIP Project No. 3-69-0002-35	-	19,214
Saipan International Airport, AIP Project No. 3-69-0002-37	(53,186)	2,250
Saipan International Airport, AIP Project No. 3-69-0002-38/41	-	28,243
Saipan International Airport, AIP Project No. 3-69-0002-42/47	-	172,382
Saipan International Airport, AIP Project No. 3-69-0002-43/56	3,099	4,625
Saipan International Airport, AIP Project No. 3-69-0002-45/49	3,652	-
Saipan International Airport, AIP Project No. 3-69-0002-48/55	42,472	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
Saipan International Airport, AIP Project No. 3-69-0002-54	1,818	-
Rota International Airport, AIP Project No. 3-69-0003-14	-	174
Rota International Airport, AIP Project No. 3-69-0003-19	228,226	3,847
Master Plan Study (Pagan), AIP Project No. 3-69-0004-01	1,826	1,425
Tinian International Airport, AIP Project No. 3-69-0011-10	-	2,250
Tinian International Airport, AIP Project No. 3-69-0011-15	1,874	-
Tinian International Airport, AIP Project No. 3-69-0011-16	2,125	1,425
Tinian International Airport, AIP Project No. 3-69-0011-17	1,861	1,425
Tinian International Airport, AIP Project No. 3-69-0011-18	2,129	2,375
Tinian International Airport, AIP Project No. 3-69-0011-19	<u>1,271</u>	<u>-</u>
	267,829	260,345

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(4) Receivables From Federal Grantor Agencies, Continued

	<u>2006</u>	<u>2005</u>
<u>Transportation Security Administration</u>		
Security reimbursement	73,636	31,247
<u>United States Coast Guard</u>		
Memorandum of Agreement	-	1,537
<u>U.S. Department of the Interior</u>		
Tinian Runway Project	-	1,628,130
OMIP	92,786	-
Rota Extension Runway	1,155,612	-
Tinian Terminal Building Expansion	541,616	-
<u>U.S. Department of Homeland Security</u>		
Homeland Security Grant Program	56,536	-
Waterside Security	268,292	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<u>349,216</u>	<u>248,321</u>
	<u>\$ 2,805,523</u>	<u>\$ 2,169,580</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.

(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, 2006 and 2005, are as follows:

	<u>2006</u>	<u>2005</u>
Accounts receivable	\$ 3,179,459	\$ 3,875,751
Less allowance for doubtful accounts	<u>(1,238,722)</u>	<u>(2,017,052)</u>
	<u>\$ 1,940,737</u>	<u>\$ 1,858,699</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(6) Capital Assets

Capital asset balances consist of the following as of September 30, 2006 and 2005:

	Estimated Useful Lives	Balance October 1, 2005	Increases	Decreases	Balance September 30, 2006
Assets not being depreciated:					
Construction in progress		\$ 36,118,445	\$ 18,692,163	\$ (31,878,434)	\$ 22,932,174
Land		<u>464,429</u>	<u>-</u>	<u>-</u>	<u>464,429</u>
Total capital assets not being depreciated		<u>36,582,874</u>	<u>18,692,163</u>	<u>(31,878,434)</u>	<u>23,396,603</u>
Capital assets being depreciated:					
Runway and improvements	20 years	46,506,820	23,314,645	(11,875)	69,809,590
Other improvements	3 - 10 years	12,820,613	3,376,873	-	16,197,486
Terminal facilities	20 years	64,126,028	4,957,565	-	69,083,593
Terminal equipment	2 - 10 years	9,547,057	45,164	-	9,592,221
Harbor facilities	20 years	61,997,300	-	-	61,997,300
Grounds maintenance and shop equipment	2 - 5 years	506,735	-	-	506,735
Fire and rescue equipment	2 - 8 years	9,951,048	530,708	-	10,481,756
Office furniture and fixtures	2 - 10 years	840,044	19,483	(35,356)	824,171
General transportation	3 - 5 years	745,482	177,785	(43,626)	879,641
Other	3 - 5 years	<u>605,330</u>	<u>266,139</u>	<u>-</u>	<u>871,469</u>
		207,646,457	32,688,362	(90,857)	240,243,962
Less accumulated depreciation		<u>(97,719,142)</u>	<u>(9,614,293)</u>	<u>78,982</u>	<u>(107,254,453)</u>
Total capital assets being depreciated		<u>109,927,315</u>	<u>23,074,069</u>	<u>(11,875)</u>	<u>132,989,509</u>
Total capital assets, net		<u>\$ 146,510,189</u>	<u>\$ 41,766,232</u>	<u>\$ (31,890,309)</u>	<u>\$ 156,386,112</u>
	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>-</u>	<u>-</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>

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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(6) Capital Assets, Continued

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

(7) Revenue Bonds Payable

Airport Division

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

Revenue bonds payable as of September 30, 2006 and 2005, consist of the following:

	<u>2006</u>	<u>2005</u>
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2007 and 2028 are listed below.	\$ 17,625,000	\$ 17,995,000
Current portion	<u>395,000</u>	<u>370,000</u>
Long-term portion	\$ <u>17,230,000</u>	\$ <u>17,625,000</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.

COMMONWEALTH PORTS AUTHORITY

**Notes to Financial Statements
September 30, 2006 and 2005**

(7) Revenue Bonds Payable, Continued

Airport Division, 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>
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	500,000	977,500	1,477,500
2012 - 2016	3,020,000	4,360,332	7,380,332
2017 - 2021	4,090,000	3,257,499	7,347,499
2022 - 2026	5,545,000	1,762,657	7,307,657
2027 - 2028	<u>2,735,000</u>	<u>173,595</u>	<u>2,908,595</u>
	<u>\$ 17,625,000</u>	<u>\$ 14,729,240</u>	<u>\$ 32,354,240</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:

<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.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

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

Revenue bonds payable as of September 30, 2006 and 2005, consist of the following:

	<u>2006</u>	<u>2005</u>
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 2007 and 2028 are listed below.	\$ 29,775,000	\$ 30,390,000
Special Revenue Bonds, tax exempt, 2005 Senior Series A: interest and annual installments payable to the Bond Trustee between 2007 and 2031 are listed below.	7,225,000	7,225,000
Deferred costs of debt refunding on 1998 Senior Series A bonds	(1,105,940)	(1,141,043)
Discount on 2005 Senior Series A bonds	<u>(119,490)</u>	<u>(124,270)</u>
	35,774,570	36,349,687
Current portion	<u>655,000</u>	<u>615,000</u>
Long-term portion	<u>\$ 35,119,570</u>	<u>\$ 35,734,687</u>

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>
2007	\$ 655,000	\$ 2,340,910	\$ 2,995,910
2008	845,000	2,292,235	3,137,235
2009	895,000	2,236,493	3,131,493
2010	950,000	2,177,368	3,127,368
2011	1,015,000	2,114,392	3,129,392
2012 - 2016	6,100,000	9,478,838	15,578,838
2017 - 2021	8,285,000	7,189,021	15,474,021
2022 - 2026	11,220,000	4,080,560	15,300,560
2027 - 2031	<u>7,035,000</u>	<u>652,574</u>	<u>7,687,574</u>
	<u>\$ 37,000,000</u>	<u>\$ 32,562,391</u>	<u>\$ 69,562,391</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

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, 2006 and 2005, total deposits in the Seaport supplemental reserve fund amounted to \$8,205,849 and \$6,991,329, respectively.

The 1998 Senior Series A and the 2005 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.

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

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

<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) Mandatory redemption - The 2005 Senior Series A Bonds are subject to mandatory redemption upon notice of completion of the 2005 Project (purchase, acquisition, construction/reconstruction, repair, renovation, improvement, certain capital improvements or expansion of CPA's seaports) or after three years from the date of issuance of the 2005 Senior Series A Bonds from moneys transferred from the Construction Fund to the Optional Redemption Fund in accordance with Section 3.03, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.
- c) Insurance or condemnation award - At the option of CPA and prior to their stated maturity, the 2005 Senior Series A Bonds are subject to redemption from proceeds of any insurance or condemnation awards received by CPA due to a casualty loss or governmental taking of CPA's seaport facilities, if such proceeds are not used to repair or replace such facilities, under the circumstances and upon the conditions prescribed in Section 6.17, at a redemption price equal to the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(7) Revenue Bonds Payable, Continued

Seaport Division, Continued

- d) **Mandatory sinking account - The 2005 Senior Series A Bonds maturing are also subject to redemption prior to their stated maturity in part, by lot, from Mandatory Sinking Account Payments established for such maturity 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.**

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, 2006, except for the collection of gross revenues requirement related to the Airport bond indenture. Section 6.11 (A) of the Airport Bond Indenture Agreement (Indenture) states that CPA shall impose, levy, enforce and collect such fees/tariffs, lease rentals, licensing fees and other fees and charges in aggregate amount with respect to each fiscal year to produce gross revenues to comply with subsections (A)(1), (A)(2), (A)(3) and (A)(4) of Section 6.11. CPA failed to comply with this requirement for the year ended September 30, 2006. CPA was in compliance with Section 6.11 of the Airport and Seaport bond indentures at September 30, 2005.

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

(8) Note Payable to Related Party

CPA's note payable is as follows:

	<u>2006</u>	<u>2005</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.	\$ 6,676,553	\$ 7,321,380
Less amounts due within one year	<u>1,244,439</u>	<u>1,219,120</u>
Long-term debt	<u>\$ 5,432,114</u>	<u>\$ 6,102,260</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(8) Note Payable to Related Party, Continued

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, 2006, 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.

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>
2007	\$ 1,244,439	\$ 499,503	\$ 1,743,942
2008	687,058	129,395	816,453
2009	704,396	112,057	816,453
2010	722,172	94,281	816,453
2011	740,396	76,057	816,453
2012 - 2015	<u>2,578,092</u>	<u>115,687</u>	<u>2,693,779</u>
	<u>\$ 6,676,553</u>	<u>\$ 1,026,980</u>	<u>\$ 7,703,533</u>

Changes in long-term liabilities for the years ended September 30, 2006 and 2005, are as follows:

	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2006</u>	<u>Due Within One Year</u>
Bonds payable:					
Airport 1998 Senior Series A	\$ 17,995,000	\$ -	\$ (370,000)	\$ 17,625,000	\$ 395,000
Seaport 1998 Senior Series A	30,390,000	-	(615,000)	29,775,000	655,000
Seaport 2005 Senior Series A	7,225,000	-	-	7,225,000	-
Note payable	7,321,380	-	(644,827)	6,676,553	1,244,439
Deferred amounts:					
Deferred costs of debt refunding	(1,141,043)	-	35,103	(1,105,940)	-
Discount on bonds	<u>(124,270)</u>	<u>-</u>	<u>4,780</u>	<u>(119,490)</u>	<u>-</u>
	61,666,067	-	(1,589,944)	60,076,123	2,294,439
Other:					
Compensated absences	<u>661,962</u>	<u>490,545</u>	<u>(511,555)</u>	<u>640,952</u>	<u>284,386</u>
	<u>\$ 62,328,029</u>	<u>\$ 490,545</u>	<u>\$ (2,101,499)</u>	<u>\$ 60,717,075</u>	<u>\$ 2,578,825</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(8) Note Payable to Related Party, Continued

	Balance October 1, 2004	Additions	Reductions	Balance September 30, 2005	Due Within One Year
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	694,353	476,094	(508,485)	661,962	289,877
	<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>

(9) Risk Management

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

(10) Related Party Transactions

Total related party transactions for the years ended September 30, 2006 and 2005, and the related receivable and payable balances, are as follows:

	2006			
	Revenues	Expenses	Receivables	Payables
Commonwealth Development Authority	\$ -	\$ 162,802	\$ -	\$ -
Commonwealth Utilities Corporation	-	501,728	4,700,947	31,561
CNMI Government	-	126,241	-	1,227,118
Northern Mariana Islands Retirement Fund	-	2,084,913	-	970,503
Other	12,465	-	45,616	-
	<u>\$ 12,465</u>	<u>\$ 2,875,684</u>	<u>\$ 4,746,563</u>	<u>\$ 2,229,182</u>

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(10) Related Party Transactions, Continued

	2005			
	<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 Northern Mariana Islands Retirement Fund	-	136,194	-	1,100,877
Other	-	1,849,847	-	-
	<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>

A note payable to CDA amounted to \$6,676,553 and \$7,321,380 at September 30, 2006 and 2005, respectively. Interest expense on this note for the years ended September 30, 2006 and 2005 amounted to \$162,802 and \$178,891, respectively.

On November 9, 1998, a Memorandum of Agreement (MOA) was executed between CPA and the Commonwealth Utilities Corporation (CUC) specifying terms and conditions of a Sewerline Project. It has been determined that of the original total cost of the project (\$4,887,808), 29.4% 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 \$7,224,720 and \$7,217,862 as of September 30, 2006 and 2005, respectively.

The total cost of the project includes liquidated damages of \$125,000 at September 30, 2006 and 2005 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 capital asset and 70.6% is recorded as receivable from related party, noncurrent, at September 30, 2006 and 2005. The project was completed and transferred to CUC during the fiscal year ended September 30, 2006.

The Seaport Division recorded accounts receivable amounting to \$45,616 and \$41,996 at September 30, 2006 and 2005, respectively, from a company in which a Board member has interest.

During the year ended September 30, 2006, CPA recorded \$970,503 payable to the NMIRF related to the increase in employer contribution rate from 24% to 36.7%.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(11) Commitment and Contingencies

Commitment

CPA's Airport Division leases rental car concession booths, office space, other ground space, and an electronic scanning device. The Seaport Division leases land and warehouse space. Lease terms range from one to fifteen years and in most instances contain provisions for percentage rent. Concession and lease income for the years ended September 30, 2006 and 2005, amounted to \$4,362,369 and \$4,778,425, respectively. Minimum future lease income is as follows:

<u>Year ending September 30,</u>	<u>Minimum Lease Income Due</u>
2007	\$ 2,037,421
2008	1,680,310
2009	1,596,006
2010	1,476,310
2011	1,497,845
2012 - 2016	7,558,226
2017 - 2021	6,283,053
2022 - 2026	4,333,418
2027 - 2031	2,277,169
2032 - 2036	2,518,769
2037 - 2041	2,982,385
2042 - 2046	2,821,672
2047 - 2051	42,000
2052 - 2054	<u>25,200</u>
	<u>\$ 37,129,784</u>

Contingencies

CPA incurred a combined loss before capital contributions and transfers from its two divisions of \$4,567,328 during the year ended September 30, 2006. 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.

CPA participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$194,685 have been set forth in CPA's Single Audit Report for the year ended September 30, 2006. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(11) Commitment and Contingencies, Continued

Contingencies, Continued

On May 19, 2005, CPA received a Unilateral Administrative Order (UAO) issued by the U.S. Environmental Protection Agency (EPA) concerning activities at the maintenance and waste burning facilities at the Saipan International Airport. At September 30, 2006 and 2005, CPA incurred cleanup expenditures related to the UAO totaling \$538,940 and \$44,892, respectively. The ultimate cost of the clean up has not been determined; accordingly, no provision has been accrued at September 30, 2006 for additional costs that may be incurred. In addition, interest and penalties, if any, related to the UAO have not been assessed, accordingly, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

(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, China and Korea. Seaport fees received by CPA are primarily comprised of wharfage fees on cargo from the CNMI, Japan, United States, the Philippines and other Asian countries. Lease revenue is derived primarily from Saipan International Airport's prime concessionaire which is located in the CNMI.

During the years ended September 30, 2006 and 2005, three customers accounted for 52% of the total operating revenues of the Airport Division, and one customer accounted for 43% and 17% of the total operating revenues of the Seaport Division during the years ended September 30, 2006 and 2005, respectively.

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

(13) Typhoon Damages

During the year ended September 30, 2006, CPA finalized the estimated cost of damages caused by Typhoon Chaba in August 2004. The estimated damages total \$7,702,213 with approximately \$7,025,107 of repairs and replacements remaining to be completed at September 30, 2006.

Estimated typhoon costs and related insurance and grant recoveries at September 30, 2006, are as follows:

Estimated typhoon costs	\$ 7,025,107
Less projects to be capitalized	(3,032,118)
Anticipated local and federal grant recoveries	(2,520,706)
Insurance recoveries	<u>(1,600,000)</u>
Net insurance recovery	\$ <u>(127,717)</u>

Actual costs and related recoveries may be materially different than estimated.

COMMONWEALTH PORTS AUTHORITY

Notes to Financial Statements
September 30, 2006 and 2005

(13) Typhoon Damages, Continued

CPA has received insurance proceeds of \$1,600,000 (\$1,300,000 and \$300,000 received during the years ended September 30, 2006 and 2005, respectively) relating to Typhoon Chaba. CPA previously recognized insurance proceeds received during the year ended September 30, 2005 as other income-proceeds from insurance claims. CPA subsequently determined that such proceeds should be accrued and applied against future typhoon repair costs to be incurred. To correct the accounting for insurance proceeds, the following accounts have been restated as of and for the year September 30, 2005 as follows:

	As Previously <u>Stated</u>	<u>As Restated</u>
Proceeds from insurance claims	\$ <u>300,000</u>	\$ <u>-</u>
Accrued expenses	\$ <u>552,612</u>	\$ <u>852,612</u>

(14) Subsequent Events

On May 3, 2007, Fitch Ratings downgraded CPA's Airport Revenue Bonds Senior Series A to CCC. In addition, on May 19, 2007, Fitch Ratings also downgraded Seaport Revenue Bonds Senior Series A to BBB-.

On July 11, 2007, CPA entered into two separate Memorandums of Agreement with CUC related to the Sewerline Project and wharfage fees assigned to CPA by a vendor.

COMMONWEALTH PORTS AUTHORITY

Combining Schedule of Net Assets
September 30, 2006

<u>ASSETS</u>	<u>Airport Division</u>	<u>Seaport Division</u>	<u>Elimination</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents	\$ 6,877,165	\$ 4,581,150	\$ -	\$ 11,458,315
Receivables:				
Grantor agencies	2,413,431	392,092	-	2,805,523
Operations, net	1,700,598	240,139	-	1,940,737
Related parties	-	45,616	-	45,616
Due from Seaport Division	125,177	-	(125,177)	-
Officers and employees	34,394	3,856	-	38,250
Prepaid expenses	77,609	-	-	77,609
Investments, restricted for construction and debt service purposes	<u>3,982,314</u>	<u>18,590,640</u>	<u>-</u>	<u>22,572,954</u>
Total current assets	<u>15,210,688</u>	<u>23,853,493</u>	<u>(125,177)</u>	<u>38,939,004</u>
Noncurrent assets:				
Deferred bond issue costs	570,549	1,024,618	-	1,595,167
Receivable from related party	4,700,947	-	-	4,700,947
Capital assets, net	<u>112,834,470</u>	<u>43,551,642</u>	<u>-</u>	<u>156,386,112</u>
Total noncurrent assets	<u>118,105,966</u>	<u>44,576,260</u>	<u>-</u>	<u>162,682,226</u>
	<u>\$ 133,316,654</u>	<u>\$ 68,429,753</u>	<u>\$ (125,177)</u>	<u>\$ 201,621,230</u>
<u>LIABILITIES AND NET ASSETS</u>				
Current liabilities:				
Revenue bonds payable, current portion	\$ 395,000	\$ 655,000	\$ -	\$ 1,050,000
Note payable to related party, current portion	-	1,244,439	-	1,244,439
Contractors payable	3,921,912	295,551	-	4,217,463
Trade and other payables	133,697	5,115	-	138,812
Due to related parties	1,977,819	251,363	-	2,229,182
Due to Airport Division	-	125,177	(125,177)	-
Accrued expenses	496,412	1,746,294	-	2,242,706
Deferred income	10,333	-	-	10,333
Compensated absences, current portion	<u>256,645</u>	<u>27,741</u>	<u>-</u>	<u>284,386</u>
Total current liabilities	7,191,818	4,350,680	(125,177)	11,417,321
Compensated absences, net of current portion	317,391	39,175	-	356,566
Revenue bonds payable	17,230,000	35,119,570	-	52,349,570
Note payable to related party	<u>-</u>	<u>5,432,114</u>	<u>-</u>	<u>5,432,114</u>
Total liabilities	<u>24,739,209</u>	<u>44,941,539</u>	<u>(125,177)</u>	<u>69,555,571</u>
Net assets:				
Invested in capital assets, net of related debt	95,780,019	2,125,137	-	97,905,156
Restricted	3,982,314	18,590,640	-	22,572,954
Unrestricted	<u>8,815,112</u>	<u>2,772,437</u>	<u>-</u>	<u>11,587,549</u>
Total net assets	<u>108,577,445</u>	<u>23,488,214</u>	<u>-</u>	<u>132,065,659</u>
	<u>\$ 133,316,654</u>	<u>\$ 68,429,753</u>	<u>\$ (125,177)</u>	<u>\$ 201,621,230</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Schedule of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2006

	Airport Division	Seaport Division	Elimination	Total
Operating revenues:				
Aviation fees	\$ 6,674,299	\$ -	\$ -	\$ 6,674,299
Seaport fees	-	7,404,346	-	7,404,346
Concession and lease income	3,286,776	1,075,593	-	4,362,369
Other	990,030	526,011	-	1,516,041
	<u>10,951,105</u>	<u>9,005,950</u>	<u>-</u>	<u>19,957,055</u>
Less bad debt	(530,953)	-	-	(530,953)
Operating revenues, net	<u>10,420,152</u>	<u>9,005,950</u>	<u>-</u>	<u>19,426,102</u>
Operating expenses:				
Depreciation and amortization	7,216,388	2,397,905	-	9,614,293
Salaries and wages	4,919,921	631,728	-	5,551,649
Employee benefits	2,056,358	245,852	-	2,302,210
Insurance	791,903	1,136,323	-	1,928,226
Contractual services	963,195	161,502	-	1,124,697
Professional fees	591,373	73,732	-	665,105
Utilities	450,016	51,712	-	501,728
Supplies	423,314	40,586	-	463,900
Repairs and maintenance	213,140	52,846	-	265,986
Travel	139,373	27,396	-	166,769
Training	130,445	-	-	130,445
Promotion and advertising	55,062	10,536	-	65,598
Other	661,799	135,800	-	797,599
Total operating expenses	<u>18,612,287</u>	<u>4,965,918</u>	<u>-</u>	<u>23,578,205</u>
Operating (loss) income	<u>(8,192,135)</u>	<u>4,040,032</u>	<u>-</u>	<u>(4,152,103)</u>
Non-operating revenues (expenses):				
Passenger facility charges	2,315,891	-	-	2,315,891
Net proceeds from insurance claims	-	127,717	-	127,717
Interest income	214,521	726,960	-	941,481
Interest expense	(1,113,125)	(2,620,254)	-	(3,733,379)
Amortization of bond issue costs	(24,459)	(42,476)	-	(66,935)
Total non-operating revenues (expenses), net	<u>1,392,828</u>	<u>(1,808,053)</u>	<u>-</u>	<u>(415,225)</u>
(Loss) income before capital contributions	<u>(6,799,307)</u>	<u>2,231,979</u>	<u>-</u>	<u>(4,567,328)</u>
Capital contributions	<u>17,899,097</u>	<u>385,723</u>	<u>-</u>	<u>18,284,820</u>
Change in net assets	11,099,790	2,617,702	-	13,717,492
Net assets at beginning of year	<u>97,477,655</u>	<u>20,870,512</u>	<u>-</u>	<u>118,348,167</u>
Net assets at end of year	<u>\$ 108,577,445</u>	<u>\$ 23,488,214</u>	<u>\$ -</u>	<u>\$ 132,065,659</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH PORTS AUTHORITY

Combining Schedule of Cash Flows
Year Ended September 30, 2006

	Airport Division	Seaport Division	Elimination	Total
Cash flows from operating activities:				
Cash received from customers	\$ 10,455,745	\$ 8,877,730	\$ -	\$ 19,333,475
Cash payments to suppliers for goods and services	(4,360,655)	(1,539,274)	-	(5,899,929)
Cash payments to employees for services	(6,994,928)	(879,941)	-	(7,874,869)
Net cash (used for) provided by operating activities	<u>(899,838)</u>	<u>6,458,515</u>	<u>-</u>	<u>5,558,677</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(17,529,577)	(206,313)	-	(17,735,890)
Proceeds from insurance on capital assets	-	1,300,000	-	1,300,000
Capital contributions received	17,515,717	133,160	-	17,648,877
Passenger facility charge receipts	2,315,891	-	-	2,315,891
Principal paid on revenue bond maturities	(370,000)	(615,000)	-	(985,000)
Payments on note payable to related party	-	(644,827)	-	(644,827)
Bond issue costs	-	(248,085)	-	(248,085)
Interest paid on revenue bonds and note payable to related party	(1,113,125)	(2,580,371)	-	(3,693,496)
Net cash provided by (used for) capital and related financing activities	<u>818,906</u>	<u>(2,861,436)</u>	<u>-</u>	<u>(2,042,530)</u>
Cash flows from investing activities:				
Net change in restricted investments	(1,025,228)	(920,010)	-	(1,945,238)
Interest income	214,521	726,960	-	941,481
Net cash used for investing activities	<u>(810,707)</u>	<u>(193,050)</u>	<u>-</u>	<u>(1,003,757)</u>
Net change in cash and cash equivalents	(891,639)	3,404,029	-	2,512,390
Cash and cash equivalents at beginning of year	7,768,804	1,177,121	-	8,945,925
Cash and cash equivalents at end of year	<u>\$ 6,877,165</u>	<u>\$ 4,581,150</u>	<u>\$ -</u>	<u>\$ 11,458,315</u>
Reconciliation of operating (loss) income to net cash (used for) provided by operating activities:				
Operating (loss) income	\$ (8,192,135)	\$ 4,040,032	\$ -	\$ (4,152,103)
Adjustments to reconcile operating (loss) income to net cash (used for) provided by operating activities:				
Depreciation and amortization	7,216,388	2,397,905	-	9,614,293
Bad debts	530,953	-	-	530,953
(Increase) decrease in assets:				
Receivables - operations	(489,206)	(123,785)	-	(612,991)
Due from Seaport Division	1,335	-	(1,335)	-
Receivables - officers and employees	(1,055)	(815)	-	(1,870)
Prepaid expenses	85,321	5,730	-	91,051
Receivables - related parties	(4,842)	(3,620)	-	(8,462)
Increase (decrease) in liabilities:				
Accounts payable - trade and other	(1,214,443)	(2,653)	-	(1,217,096)
Accounts payable - related parties	990,420	129,273	-	1,119,693
Due to Airport Division	-	(1,335)	1,335	-
Accrued expenses	197,667	20,144	-	217,811
Deferred income	(1,592)	-	-	(1,592)
Compensated absences	(18,649)	(2,361)	-	(21,010)
Net cash (used for) provided by operating activities	<u>\$ (899,838)</u>	<u>\$ 6,458,515</u>	<u>\$ -</u>	<u>\$ 5,558,677</u>

See Accompanying Independent Auditors' Report.