COMMONWEALTH PORTS AUTHORITY

(670) 532-9486

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 1998 AND 1997

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

YEAR ENDED SEPTEMBER 30,1998

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Ports Authority:

We have audited the accompanying balance sheets of the Commonwealth Ports Authority (CPA), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 1998 and 1997, and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of CPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

Governmental Accounting Standards Board Technical Bulletin 98-1, Disclosures about Year 2000 Issues, requires disclosure of certain matters regarding the year 2000 issue. CPA has included such disclosures in Note 14. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support CPA's disclosures with respect to the year 2000 issue made in Note 14. Further, we do not provide assurance that CPA is or will be year 2000 ready, that CPA's year 2000 remediation efforts will be successful in whole or in part, or that parties with which CPA does business will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, such financial statements present fairly, in all material respects, the financial position of CPA as of September 30, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining divisional information presented on pages 3 through 5, which is also the responsibility of CPA's management, is presented for purposes of additional analysis and is not a required part of the financial statements of CPA. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole. In accordance with Government Auditing Standards, we have also issued our report dated March 18, 1999 on our consideration of CPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Deloitte & Touche

March 18,1999
(except for Note 16, as to which the date is April 14, 1999)

COMMONWEALTH PORTS AUTHORITY

Balance Sheets
September 30, 1998 and 1997
(With Combining Divisional Information as of September 30, 1998)

ASSETS	Airport Division	Seaport Division	1998	1997 (As Restated Note 17)
Current assets:				
Cash and cash equivalents	$ 2,200,619	$ 2,978,114	$ 5,178,733	$ 7,306,401
Time certificate of deposit	-	-	-	291,887
Investments (note4)	514,068	114,830	628,898	69,176
Receivables:				
Grantor agencies (note 3)	743,143	-	743,143	1,708,324
Operations, net (note 5)	1,056,899	348,355	1,405,254	1,795,207
Due from Seaport Division	187,431	-	187,431	146,215
Officers and employees	25,406	1,666	27,072	27,663
Prepaid expenses	500	-	500	13,108
Deferred bond issue cost-current portion	20,687	29,371	50,058	46,738
Total current assets	4,748,753	3,472,336	8,221,089	11,404,719
Other assets:				
Investments restricted for construction and debt service purposes (note 4)	13,422,882	9,805,875	23,228,757	12,243,667
Non-current assets:				
Investments (note 4)	248,009	489,564	737,573	1,725,102
Deferred bond issue cost	588,928	836,136	1,425,064	646,692
Property, plant, equipment, net (note 6)	72,492,454	57,316,411	129,808,865	121,220,481
Total non-current assets	73,329,391	58,642,111	131,971,502	123,592,275
	$ 91,501,026	$ 71,920,322	$ 163,421,348	$ 147,240,661
LIABILITIES AND FUND EOUITY				
Current liabilities:				
Revenue bonds payable, current portion (note 7)	$ 240,000	$ 400,000	$ 640,000	$ 1,120,000
Notes payable, current portion (note 8)	-	808,670	808,670	769,469
Accounts payable:				
Contractors	1,741,927	1,791,371	3,533,298	5,040,698
Trade and other	438,714	32,333	471,047	397,058
Due to Airport Division	-	187,431	187,431	146,215
Accrued expenses	1,069,133	89,194	1,158,327	2,462,869
Deferred income	170,579	-	170,579	1,157,103
Total current liabilities	3,660,353	3,308,999	6,969,352	11,093,412
Revenue bonds payable (note 7)	19,327,788	32,032,893	51,360,681	30,765,000
Notes payable (note 8)	-	11,361,946	11,361,946	12,202,236
Total liabilities	22,988,141	46,703,838	69,691,979	54,060,648
Fund equity:				
Contributed capital, net (note 9)	36,893,468	11,173,732	48,067,200	46,835,373
Retained earnings	31,619,417	14,042,752	45,662,169	46,344,640
Total fund equity	68,512,885	25,216,484	93,729,369	93,180,013
Commitments and contingency (notes 10 and 13)				
	$91,501,026	$71,920,322	$163,421,348	$147,240,661

(See accompanying notes to financial statements)

COMMONWEALTH PORTS AUTHORITY

Statements of Revenues, Expenses and Changes in Fund Equity
Years Ended September 30, 1998 and 1997
(With Combining Divisional Information for the year ended September 30, 1998)

	Airport Division	Seaport Division	1998	1997 (As Restated Note17)
Operating revenues:				
Aviation fees (note 11)	$ 5,749,788	$ -	$ 5,749,788	$ 8,222,019
Concession and lease income (note 10)	4,206,899	475,417	4,682,316	5,516,883
Seaport fees	-	3,506,287	3,506,287	2,970,985
Other	699,154	277,854	977,008	1,135,339
Total operating revenues	10,655,841	4,259,558	14,915,399	17,845,226
Operating expenses:				
Depreciation and amortization	5,078,583	1,734,054	6,812,637	3,115,303
Salaries and wages	5,732,388	560,391	6,292,779	6,043,345
Employee benefits	1,975,662	149,890	2,125,552	2,011,180
Supplies	651,507	26,872	678,379	879,770
Insurance	602,965	-	602,965	880,880
Utilities	291,258	127,371	418,629	349,799
Professional fees	269,363	57,055	326,418	385,255
Travel	232,626	48,713	281,339	560,640
Repairs and maintenance	184,232	65,386	249,618	253,436
Contractual services	228,181	19,756	247,937	531,069
Promotion and advertising	77,525	688	78,213	134,513
Training	30,242	-	30,242	58,847
Other	411,559	213,869	625,428	600,760
Total operating expenses	15,766,091	3,004,045	18,770,136	15,804,797
Operating (loss) income	(5,110,250)	1,255,513	(3,854,737)	2,040,429
Non-operating revenues (expenses):				
Interest income	699,740	840,697	1,540,437	1,658,483
Other contributions (note 12)	1,000,000	-	1,000,000	-
Interest expense	(586,233)	(984,654)	(1,570,887)	-
Damages to contractor (note 16)	(220,500)	-	(220,500	-
Amortization of bond issue cost	(26,839)	(23,136)	(49,975)	(46,738)
Total non-operating revenues (expenses), net	866,168	(167,093)	699,075	1,611,745
Net (loss) income	(4,244,082)	1,088,420	(3,155,662)	3,652,174
Add depreciation on fixed assets acquired by grants externally restricted for capital acquisition and construction that reduces contributed capital	1,953,493	519,698	2,473,191	1,663,667
(Decrease) increase in retained earnings	(2,290,589)	1,608,118	(682,471)	5,315,841
Retained earnings at beginning of year, as restated (note 17)	33,910,006	12,434,634	46,344,640	41,028,799
Retained earnings at end of year	31,619,417	14,042,752	45,662,169	46,344,640
Contributed capital at beginning of year, as restated (note 17)	35,230,336	11,605,037	46,835,373	44,140,536
Contributed capital additions	3,616,625	88,393	3,705,018	4,358,504
Less depreciation	(1,953,493)	(519,698)	(2,473,191)	(1,663,667)
Contributed capital at end of year (note 9)	36,893,468	11,173,732	48,067,200	46,835,373
Total fund equity	$ 68,512,885	$ 25,216,484	$ 93,729,369	$ 93,180,013

(See accompanying notes to financial statements)

COMMONWEALTH PORTS AUTHORITY

Statements of Cash Flows
Years Ended September 30, 1998 and 1997
(With Combining Divisional Information for the year ended September 30, 1998)

	Airport Division	Seaport Division	1998	1997
Cash flows from operating activities:				
Operating (loss) income	$ (5,110,250)	$ 1,255,513	$ (3,854,737)	$ 2,040,429
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:				
Depreciation and amortization	5,078,583	1,734,054	6,812,637	3,115,303
(Increase) decrease in assets:				
Receivables - operations	548,475	(158,522)	389,953	409,679
Interdivisional accounts	(41,216)	41,216	-	-
Receivables - officers and employees	(2,952)	3,544	592	(1,830)
Prepaid expenses	12,608	-	12,608	110,246
Increase (decrease) in liabilities:				
Accounts payable - trade and other	65,676	8,300	73,976	304,530
Accrued expenses	(233,581)	34	(233,547)	147,736
Deferred income	13,476	-	13,476	979,670
Net cash provided by operating activities	330,819	2,884,139	3,214,958	7,105,763
Cash flows from capital and related financing activities:				
Acquisition of property, plant and equipment	(6,993,158)	(7,841,226)	(14,834,384)	(22,808,472)
Net receipts from grantor agencies	4,581,800	-	4,581,800	2,153,023)
Principal paid on revenue bond maturities	(9,414,999)	(22,470,000)	(31,884,999)	(1,145,000)
Receipts from bond issue, net	19,200,475	31,596,031	50,796,506	
Payments on note payable	-	(801,089)	(801,089)	(484,151)
Interest paid on revenue bonds and equipment contracts	(1,388,101)	(3,087,400)	(4,475,501)	(415,197)
Net cash provided by (used for) capital and related financing activities	5,986,017	(2,603,684)	3,382,333	(22,699,797)
Cash flows from investing activities:				
Sale of time certificate of deposit	291,887	-	291,887	(291,887)
Net investment liquidations (purchases), unrestricted	448,215	(20,408)	427,807	5,254,141
Net investment liquidations (purchases), restricted	(8,518,478)	(2,466,612)	(10,985,090)	7,697,510
Interest income	699,740	840,697	1,540,437	1,658,483
Net cash (used for) provided by investing activities	(7,078,636)	(1,646,323)	(8,724,959)	14,318,247
Net decrease in cash and cash equivalents	(761,800)	(1,365,868)	(2,127,668)	(1,275,787)
Cash and cash equivalents at beginning of year	2,962,419	4,343,982	7,306,401	8,582,188
Cash and cash equivalents at end of year	$ 2,200,619	$ 2,978,114	$ 5,178,733	$ 7,306,401

(See accompanying notes to financial statements)

(1) Organization

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

(2) Summary of Significant Accounting Policies

The accounting policies of CPA conform to generally accepted accounting principles, as applicable to governmental entities, specifically proprietary funds. Government 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.

The preparation of financial statements in conformity with generally accepted accounting principles 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.

A. Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources, measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the balance sheets.

Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases and decreases in net total 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.

B. 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 the Governor.

(2) Summary of Significant Accounting Policies, Continued

C. Cash and Cash Equivalents

For purposes of the Balance Sheets and the Statements of Cash Flows, CPA considers cash in checking and savings accounts, and time certificates of deposit, with a maturity of three months or less when purchased, to be cash and cash equivalents. Time certificates of deposit with maturities of greater than three months when purchased are separately classified. All of CPA's cash and cash equivalents, except for time certificates of deposit amounting to approximately $1,000,000, are with federally insured banks, $200,000 of which is subject to coverage by federal insurance with the remaining balance exceeding insurable limits. CPA does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized.

D. Capitalization of Interest

CPA capitalizes interest in order to recognize all costs associated with the airport and seaport construction projects based on CPA's weighted average borrowing rate. During the years ended September 30, 1998 and 1997, $1,855,313 and $2,429,521, respectively, of eligible interest expense was capitalized.

E. Investments

contributed assets is recorded as a charge against income.

CPA values its investments based on fair values in accordance with GASB Statement No. 31.

Public Law 2-48, Section 31, requires that all CPA's 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.

F. Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated at an amount which 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. CPA has determined that no allowance for doubtful accounts is necessary for receivable balances in note 5.

G. Property, Plant and Equipment

Property, plant and equipment and construction-in-progress, set forth in note 6, are recorded at cost. Depreciation is provided by using the straight-line method over the estimated useful lives of the assets.

CPA follows the generally accepted accounting principle of recording grants-in-aid for the construction or acquisition of facilities and equipment as contributions. Under this principle, depreciation applicable to contributed assets is recorded as a reduction against the related contribution and depreciation applicable to non-

(2) Summary of Significant Accounting Policies, Continued

H. Deferred Bond Issue Cost

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

I. 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 1247, Saipan, MP, 96950.

Plan members are required to contribute 6.5% and 9.0% of their annual covered salary for Class I and Class II members, respectively, and CPA is required to contribute at an actuarially determined rate. The current rate is 26.4% of annual covered payroll. The contribution requirements of plan members and CPA are established and may be amended by the Fund's Board of Trustees. CPA's contributions to the Fund for the years ending September 30, 1998, 1997 and 1996 were $1,447,795, $1,392,919, and $882,346, respectively, equal to the required contributions for each year.

J. 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, 1998 and 1997, is $653,672 and $620,801, respectively, and are included in accrued expenses in the accompanying financial statements.

(3) Receivables From Federal Grantor Agencies

Receivables from the U.S. Federal Aviation Administration and the U.S. Department of the Interior as of September 30, 1998 and 1997, are as follows:

	1998	1997
U.S. Department of Transportation Federal Aviation Administration		
Saipan International Airport, AIP Project No. 3-69-0002-13	$ 113,029	$ 113,029
Saipan International Airport, AIP Project No. 3-69-0002-20	23,897	65,826
Saipan International Airport, AIP Project No. 3-69-0002-22	-	196,589
Saipan International Airport, AIP Project No. 3-69-0002-23	203,601	828,478
Saipan International Airport, AIP Project No. 3-69-0002-24	89,212	73,125

(3) Receivables From Federal Grantor Agencies, Continued

	1998	1997
U.S. Department of Transportation Federal Aviation Administration, Continued		
Rota International Airport, AIP Project No. 3-69-0003-08	135,760	-
Rota International Airport, AIP Project No. 3-69-0003-09	55,925	197,973
Rota International Airport, AIP Project No. 3-69-0003-10	138,842	-
Tinian International Airport, AIP Project No. 3-69-0011-04	(17,123)	34,466
Tinian International Airport, AIP Project No. 3-69-0011-05	-	41,149
	743,143	1,550,635
U.S. Department of the Interior Office of Territorial and International Affairs		
Saipan International Airport	-	157,689
	$ 743,143	$ 1,708,324

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

(4) Investments

Unrestricted investments are carried at fair value. These investments are held in a fixed income securities fund, U.S. Government securities, U.S. Government money market funds, time certificates of deposit and a cash management fund at September 30, 1998 and 1997.

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

	1998	1997
Airport Investments		
Bond Fund	$ -	$ 2,174,962
Bond Reserve Fund	1,538,858	1,023,466
Repayment Reserve Fund	-	1,700,000
Construction Fund	6,108,410	5,976
Cost of Issuance Fund	172,459	-
Capitalized Interest Fund	1,625,576	-
Reimbursement Fund	3,977,579	-
	$ 13,422,882	$ 4,904,404

(4) Investments. Continued

	1998	1997
Seaport Investments		
Bond Fund	$ -	$1,067,034
Bond Reserve Fund	2,631,306	2,485,564
Cost of Issuance Fund	233,301	17,966
Construction Fund	2,979,495	3,768,699
Capitalized Interest Fund	233,140	-
Supplemental Reserve Fund	2,088,434	-
Reimbursement Fund	1,640,199	-
	$ 9,805,875	$ 7,339,263

At September 30, 1998 and 1997, investments held in these funds consist of time deposits, U.S. Government securities, U.S. Government treasury bills and U.S. Government money market fund. These investments are presented at fair value. Total investments of CPA are insured to $100,000 with the remaining balance being uninsured as of September 30, 1998 and 1997.

CPA's investments as of September 30, 1998 and 1997, are summarized below:

	1998 Fair Value	1997 Fair Value
Short-term Investments:		
Airport Division		
Investments, unrestricted:		
U.S. Government money market fund	$ 11,099	$ 2,227
Cash management fund	402,969	32,268
Time certificate of deposit	100,000	-
	514,068	34,495
Investments, restricted:		
U.S. Government money market fund	-	2,904,404
Time certificates of deposit	-	2,000,000
U.S. Government securities	1,528,000	
	1,528,000	4,904,404
Seaport Division		
Investments, unrestricted:		
U.S. Government securities	100,406	12,268
Cash management fund	14,424	22,413
	114,830	34,681
Investments, restricted:		
U.S. Government securities	2,619,429	2,607,188
U.S. Government money market fund	-	4,732,075
	2,619,429	7,339,263

(4) Investments, Continued

	1998 Fair Value	1997 Fair Value
Long-term investments:		
Airport Division		
Investments, unrestricted:		
U.S. Govemment securities	248,009	1,050,797
Time certificate of deposit	-	125,000
	248,009	1,175,797
Investments, restricted:		
U.S. Government money market fund	7,906,445	-
Time certificates of deposit	3,977,579	-
Common stock	10,858	-
	11,894,882	-
Seaport Division		
Investments, unrestricted:		
U.S. Government securities	338,814	549,305
U.S. Government agencies - Federal	150,750	-
	489,564	549,305
Investments, restricted:		
U.S. Government money market fund	3,518,997	-
Time certificates of deposit	2,027,250	-
Common stock	1,640,199	-
	7,186,446	-
	$ 24,595,228	$ 14,037,945

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

(5) Accounts Receivable from Operations

CPA extends credit to organizations and individuals, substantially all of whom are located in the CNMI, Japan, the United States and Korea. CPA's accounts receivable from operations as of September 30, 1998 and 1997, are summarized below (with combining information as of September 30, 1998):

	Airport Division	Seaport Division	Totals 1998	Totals 1997
Accounts receivable	$1,056,899	$ 348,355	$1,405,254	$1,795,207

(6) Property. Plant and Equipment

Property, plant and equipment and construction-in-progress balances consist of the following detailed balances as of September 30, 1998 and 1997:

		1998			
	Estimated Useful Lives	Airport Division		Seaport Division	
		Contributed	Non-Contributed	Contributed	Non-Contributed
Runway and improvements	20 years	$ 25,399,218	$ 2,999,854	$ -	$ -
Other improvements	3 -10 years	2,085,271	2,280,899	-	1,746,662
Terminal facilities	20 years	16,981,546	31,022,865	-	-
Terminal equipment	2 -10 years	232,429	6,256,048	-	-
Harbor facilities	20 years	-	-	13,732,030	29,465,215
Grounds maintenance and shop equipment	2 - 5 years	-	417,636	-	62,729
Fire and rescue equipment	2 - 8 years	1,545,193	200,750	-	-
Office furniture and fixtures	2-10years	-	565,811	-	96,267
General transportation	3 -5 years	-	697,666	-	59,875
Other	3 -5 years	-	-	-	564,123
		46,243,657	44,441,529	13,732,030	31,994,871
Less accumulated depreciation		(20,412,778)	(16,653,579)	(3,022,727)	(1,739,244)
Net, property, plant and equipment		25,830,879	27,787,950	10,709,303	30,255,627
Land		-	-	464,429	
Construction-in-progress		11,062,590	7,811,035	-	15,887,052
		$ 36,893,469	$ 35,598,985	$11,173,732	$46,142,679
Divisional totals - 1998			$72,492,454	$ 57,316,411	
Total- 1998			$129,808,865		

		1997			
	Estimated Useful Lives	Airport Division		Seaport Division	
		Contributed	Non-Contributed	Contributed	Non-Contributed
Runway and improvements	20 years	$ 22,600,505	$ 2,826,175	$ -	$ -
Other improvements	3 -10 years	2,085,274	2,280,899	-	1,540,803
Terminal facilities	20 years	13,560,328	24,869,786	-	-
Terminal equipment	2 - 10 years	232,429	809,051	-	-
Harbor facilities	20 years	-	-	3,732,030	297,190
Grounds maintenance and shop equipment	2 - 5 years	-	394,274	-	59,686
Fire and rescue equipment	2 - 8 years	1,545,193	200,750	-	-
Office furniture and fixtures	2-10 years	-	510,124	-	94,421
General transportation	3 - 5 years	-	645,927	-	55,671
Other	3 - 5 years	-	-	-	564,133
		40,023,729	32,536,986	3,732,030	2,611,904
Less accumulated depreciation		(18,459,286)	(13,536,190)	(2,503,016)	(524,879)
Net, property, plant and equipment		21,564,443	19,000,796	1,229,014	2,087,025
Land		-	-	464,429	-
Construction-in-progress		13,559,927	17,259,626	10,000,000	36,055,221
		$ 35,124,370	$36,260,422	$ 11,693,443	$38,142,246
Divisional totals - 1997			$ 71,384,792	$ 49,835,689	
Total - 1997			$ 121,220,481		

(6) Property, Plant and Equipment, Continued

CPA leases significant portions of airport terminal facilities and certain grounds and improvements to concessionaires, airlines, and other lessees. The value of CPA's property under lease is not readily determinable as it is generally an integral part of the overall facilities of CPA.

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 Northen Mariana Islands, dated February 15, 1975, for land of a similar nature leased by the CNMI to the U.S. Government.

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.

(7) Revenue Bonds Payable

Airport

On March 24, 1998, CPA issued $20,000,000 of tax-exempt airport revenue bonds which in part was used for a current refunding of $8,250,000 of 1987 Series B tax-exempt airport revenue bonds. The refunding was undertaken to consolidate existing bonds with new bonds issued for the purpose of financing various airport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $503,906. This amount is being netted 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 future debt service payments.

Interest on the bonds is payable semi-annually, at 6.25%, on March 15 and September 15 of each year, commencing on September 15, 1998, at the various rates noted below. Revenue bonds payable as of September 30, 1998 and 1997, consist of the following:

	1998	1997
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 1999 and 2028 are listed below.	$ 20,050,000	$ -
Deferred costs of debt refunding	(482,212)	-
Special Revenue Bonds, tax exempt, 1987 Senior Series B: bonds were refunded in March, 1998.	-	9,415,000
	19,567,788	9,415,000
Current portion	240,000	1,120,000
Long-term portion	$ 19,327,788	$ 8,295,000

(7) Revenue Bonds Payable. Continued

Airport, Continued

Installments payable by CPA to the Bond Trustee, and applicable interest, through the life of the 1998 Series A, Airport Revenue Bonds, are due on March 15 as follows:

Year	Principal Amount	Interest	Year	Principal Amount	Interest
1999	$ 240,000	$ 1,245,625	2014	$ 600,000	$ 874,375
2000	$ 260,000	$ 1,230,000	2015	$ 640,000	$ 835,625
2001	$ 275,000	$ 1,213,281	2016	$ 680,000	$ 794,375
2002	$ 290,000	$ 1,195,625	2017	$ 720,000	$ 750,625
2003	$ 310,000	$ 1,176,875	2018	$ 770,000	$ 704,063
2004	$ 330,000	$ 1,156,875	2019	$ 815,000	$ 654,531
2005	$ 350,000	$ 1,135,625	2020	$ 865,000	$ 602,031
2006	$ 370,000	$ 1,113,125	2021	$ 920,000	$ 546,250
2007	$ 395,000	$ 1,089,219	2022	$ 980,000	$ 486,875
2008	$ 420,000	$ 1,063,750	2023	$ 1,040,000	$ 423,750
2009	$ 445,000	$ 1,036,719	2024	$ 1,105,000	$ 356,719
2010	$ 475,000	$ 1,007,969	2025	$ 1,175,000	$ 285,469
2011	$ 500,000	$ 977,500	2026	$ 1,245,000	$ 209,844
2012	$ 535,000	$ 945,156	2027	$ 1,325,000	$ 129,531
2013	$ 565,000	$ 910,781	2028	$ 1,410,000	$ 44,063

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

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

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

Seaport

On March 24, 1998, CPA issued $33,775,000 of Senior Series A tax-exempt seaport revenue bonds which in part were used for a current refunding of $22,470,000 of 1995 Series A tax exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by $1,345,593. This amount is being netted 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 future debt service payments.

(7) Revenue Bonds Payable, Continued

Seaport, Continued

Interest on the bonds is payable semi-annually at 6.4% to March 15, 1999 and at 6.85% subsequent to March 15, 1999 (see note 16) on March 15 and September 15 of each year, commencing on September 15, 1998. Revenue bonds payable as of September 30, 1998 and1997, consist of the following:

	1998	1997
Special Revenue Bonds, tax exempt, 1998 Senior Series A: interest and annual installments payable to the Bond Trustee between 1998 and 2028 are listed below.	$ 33,775,000	$ -
Deferred costs of debt refunding	(1,342,107)	-
Special Revenue Bonds, tax exempt, 1995 Series A: bonds were refunded in March, 1998	-	22,470.000
	32,432,893	22,470,000
Current portion	400,000	-
Long-term portion	$ 32.032,893	$ 22,470,000

Installments payable by CPA to the Bond Trustee, and applicable interest, through the life of the 1998 Senior Series A, Special Revenue Bonds, are due on March 15 as follows:

Year	Principal Amount	Interest	Year	Principal Amount	Interest
1999	$ 400,000	$ 2,223,894	2014	$ 1,010,000	$ 1,624,478
2000	$ 425,000	$ 2,271,631	2015	$ 1,075,000	$ 1,553,066
2001	$ 450,000	$ 2,241,663	2016	$ 1,140,000	$ 1,477,203
2002	$ 480,000	$ 2,209,810	2017	$ 1,215,000	$ 1,396,544
2003	$ 510,000	$ 2,175,903	2018	$ 1,295,000	$ 1,310,576
2004	$ 545,000	$ 2,139,769	2019	$ 1,375,000	$ 1,219,129
2005	$ 575,000	$ 2,101,409	2020	$ 1,465,000	$ 1,121,859
2006	$ 615,000	$ 2,060,451	2021	$ 1,560,000	$ 1,018,253
2007	$ 655,000	$ 2,017,154	2022	$ 1,660,000	$ 907,968
2008	$ 695,000	$ 1,970,916	2023	$ 1,765,000	$ 790,661
2009	$ 740,000	$ 1,921,768	2024	$ 1,875,000	$ 665,991
2010	$ 785,000	$ 1,869,536	2025	$ 1,995,000	$ 533,444
2011	$ 840,000	$ 1,813,880	2026	$ 2,125,000	$ 392,334
2012	$ 890,000	$ 1,754,628	2027	$ 2,260,000	$ 242,148
2013	$ 950,000	$ 1,691,608	2028	$ 2,405,000	$ 82,371

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 revenues and funds pledged under the Indenture.

(7) Revenue Bonds Payable. Continued

Seaport, Continued

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

The bond indentures contain several restrictive covenants, including restrictions on the use of bond proceeds. Management of CPA is of the opinion that CPA was in compliance with all significant covenants as of September 30, 1998.

(8) Notes Payable

CPA's note payable and long-term debt is as follows:

	1998	1997
Promissory note due to the Commonwealth Development Authority (a component unit of the CNMI.) Principal amount available up to $13,500,000 of which $12,170,616 and $12,971,705 had been drawn as of September 30, 1998 and 1997, respectively, interest at 5% per annum, with maturity date of June 1, 2012. Quarterly principal and interest payments in the amount of $198,529 are due March 1, 1997 at which time quarterly principal and interest payments begin in the amount of $350,944.	$ 12,170,616	$ 12,971,705
Less amounts due within one year	808,670	769,469
Long-term debt	$ 11,361,946	$ 12,202,236

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

Year ending September 30,	
1999	$ 808,670
2000	849,868
2001	893,164
2002	938,667
2003	986,488
Subsequent years	7,693,759
	$ 12,170,616

(9) Contributed Capital

Capital improvement contribution balances consisted of the following detailed balances as of September 30, 1998 and 1997 (with combining information as of September 30, 1998 and 1997):

	1998		
	Airport Division	Seaport Division	Total
U.S.Federal Aviation Administration	$ 46,241,343	$ -	$ 46,241,343
Commonwealth of the Northern Mariana Islands	940,348	4,039,778	4,980,126
U.S. Economic Development Administration	2,282,839	-	2,282,839
Trust Territory of the Pacific Islands	1,851,014	-	1,851,014
U.S. Department of the Interior	5,480,905	10,000,000	15,480,905
U.S. Federal Emergency Management Agency	509,797	156,681	666,478
	57,306,246	14,196,459	71,502,705
Less amortization of contributed assets	(20,412,778)	(3,022,727)	(23,435,505)
	$ 36,893,468	$ 11,173,732	$ 48,067,200

	1997 (As Restated Note 17)		
	Airport Division	Seaport Division	Total
U.S. Federal Aviation Administration	$ 42,937,027	$ -	$ 42,937,027
Commonwealth of the Northern Mariana Islands	940,348	4,039,779	4,980,127
U.S. Economic Development Administration	2,282,839	-	2,282,839
Trust Territory of the Pacific Islands	1,851,014	-	1,851,014
U.S. Department of the Interior	5,266,097	9,911,605	15,177,702
U.S. Federal Emergency Management Agency	412,297	156,681	568,978
	53,689,622	14,108,065	67,797,687
Less amortization of contributed assets	(18,459,286)	(2,503,028)	(20,962,314)
	$ 35,230,336	$ 11,605,037	$ 46,835,373

(10) Commitments

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, 1998 and 1997, amounted to $4,682,316 and $5,516,883, respectively . Minimum future lease income is as follows:

(10) Commitments, Continued

Year ending September 30,	Minimum Lease Income Due
1999	$ 1,339,492
2000	1,376,113
2001	1,114,602
2002	1,180,374
2003	1,259,748
Thereafter	15,728,291
	$ 21,998,620

CPA is obligated under various architectural, design and construction contracts relating to airport and seaport construction projects. Total obligations for incomplete contracts at September 30, 1998 amounted to approximately $19,300,000.

(11) Major Customers

Aviation fees received by CPA are comprised of landing fees from air carriers providing scheduled flight service to Saipan, substantially all of which are located in the CNMI, Japan, United States and Korea. Lease revenue is derived primarily from Saipan International Airport's prime concessionaire which is located in the CNMI.

(12) Other Contributions

Other contributions represents an amount contributed by a concessionaire customer. The CPA Board of Directors is free to utilize the funds in any manner that it determines to be in the best interests of CPA and the CNMI.

(13) Contingency

CPA has not withheld or remitted funds to the U.S. Social Security System for the health insurance component prior to April 1, 1995. If CPA is found to be liable for such amounts, an indeterminate liability could result. It has been the practice of CPA that it is excluded from the requirements of this health insurance component previous to April 1, 1995. Therefore, no liability for any amount which may ultimately arise from this matter has been recorded in the accompanying financial statements.

(14) Year 2000 Issue

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect CPA's operations as early as fiscal year 1999.

(14) Year 2000 Issue, Continued

CPA has completed an inventory of computer systems and other electronic equipment. CPA has identified the financial reporting system and the FAA systems as requiring year 2000 remediation. All testing and validation of the financial reporting system currently being used by CPA has been completed. All testing and validation of the FAA systems has not yet been completed.

Because of unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that CPA is or will be year 2000 ready, the CPA's remediation efforts will be successful in whole or in part, or those parties with whom CPA does business will be year 2000 ready.

(15) Dependence on Primary Government

CPA incurred a net loss of $3,155,662 during the year ended September 30, 1998. Management's plans to increase revenues and/or decrease costs are as follows:

a) Increase Airport and Seaport Rates - The Board of Directors have approved increases in current Airport and Seaport rates. Effective July 1, 1999, all Seaport fees will be increased by approximately 30% as well as various increases on certain Airport ground fees. An increase in Airport landing fees and passenger departure fees is scheduled to take effect March 1, 2000.

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

The results of the first two quarters for the year ended September 30, 1999 have been favorable, with revenues exceeding budget, and expenses less than budget. Management believes that these efforts will be successful in reducing future losses of CPA.

(16) Subsequent Events

The 1998 Senior Series A Seaport Revenue Bonds were originally issued with an interest rate of 6.4% per annum. As of March 15, 1999, this interest rate was adjusted to 6.85% per annum as an Investment Grade Rating has not been given by a Rating Agency in relation to these bonds. Future interest payments and future debt service payment disclosures (see Note 7) have therefore been amended to reflect the above change in interest rate.

On April 14, 1999, CPA reached a damages settlement agreement with a contractor for a total value of $750,000. Per a Memorandum of Agreement with the Commonwealth Utilities Corporation (CUC) and the contractor, CPA is to pay $220,500 of this amount, with CUC paying the balance. As the settlement relates to conditions existing at September 30, 1998, CPA has recorded this amount as a liability at this date.

(17) Restatement

During the year ended September 30, 1998, CPA determined that contributed capital balances had been depreciated at rates that differed from those used for the relevant contributed assets CPA has restated September 30, 1997 balances by reducing retained earnings and by increasing contributed capital by $670,572.