

J. Scott Magliari
 COMPANY

CERTIFIED PUBLIC ACCOUNTANT

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

**REPORTS ON THE AUDITS OF FINANCIAL
STATEMENTS IN ACCORDANCE WITH
OMB CIRCULAR A-133**

**Year Ended
September 30, 2006**

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Statements of Net Assets (Deficiency)
September 30, 2006 and 2005

ASSETS

	<u>2006</u>	<u>2005</u> <u>Restated</u>
Current assets		
Current unrestricted assets		
Cash and cash equivalents	\$ 1,521,874	\$ 3,794,728
Accounts receivable - utility, net of allowance of \$10,502,676 and \$25,875,748 in 2006 and 2005, respectively	12,088,470	9,631,599
Other receivables, net of allowance of \$898,067 in 2006 and 2005	1,532,775	1,837,249
Due from grantor agencies	936,654	1,235,076
Inventory, less allowance for obsolescence of \$700,652 and \$701,462 in 2006 and 2005, respectively	10,575,003	9,328,099
Deferred fuel costs	<u>1,041,961</u>	<u>-</u>
Total current unrestricted assets	<u>27,696,737</u>	<u>25,826,751</u>
Current restricted assets		
Cash and cash equivalents	<u>7,870,804</u>	<u>7,591,615</u>
Total current restricted assets	<u>7,870,804</u>	<u>7,591,615</u>
Total current assets	<u>35,567,541</u>	<u>33,418,366</u>
Noncurrent assets		
Capital assets		
Utility plant in service		
Electric plant	123,333,921	118,129,929
Water plant	62,205,859	59,176,887
Sewer plant	29,634,620	23,697,843
Administrative equipment	<u>4,588,582</u>	<u>4,440,907</u>
Total	219,762,982	205,445,566
Accumulated depreciation	<u>(128,989,586)</u>	<u>(120,844,555)</u>
Net utility plant and administrative equipment	90,773,396	84,601,011
Construction in progress	<u>12,613,859</u>	<u>14,851,784</u>
Total capital assets	<u>103,387,255</u>	<u>99,452,795</u>
TOTAL ASSETS	<u>138,954,796</u>	<u>132,871,161</u>

See accompanying notes to financial statements.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Statements of Net Assets (Deficiency)
September 30, 2006 and 2005

	2006	2005 Restated
<u>LIABILITIES</u>		
Current liabilities		
Current maturities of long-term debt	\$ 61,620,948	\$ 61,617,939
Current obligations under capital lease	1,521,801	1,271,733
Accounts payable	11,522,274	9,342,340
Accrued liabilities	56,055	133,957
Accrued payroll	301,463	553,220
Compensated absences, current portion	348,897	399,822
Due to primary government	2,026,212	1,331,453
Interest payable	105,136,517	95,026,402
Customer deposits	9,727,956	9,219,337
Current maturities of long-term debt payable from current restricted assets	-	3,246,265
Total current liabilities	192,262,123	182,142,468
Noncurrent liabilities		
Long-term debt less current maturities	8,844,463	4,066,765
Obligations under capital lease, less current maturities	2,681,735	4,203,536
Advances from CNMI Government	180,911	-
Compensated absences, less current portion	370,478	423,585
Total noncurrent liabilities	12,077,587	8,693,886
TOTAL LIABILITIES	204,339,710	190,836,354
<u>NET ASSETS (DEFICIENCY)</u>		
Net assets (deficiency)		
Invested in capital assets, net of related debt	\$ 38,094,873	\$ 29,005,794
Restricted	7,870,804	4,345,350
Unrestricted	(111,350,591)	(91,316,337)
NET DEFICIENCY	\$ (65,384,914)	\$ (57,965,193)
Commitments and contingencies		

See accompanying notes to financial statements.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Statements of Revenues, Expenses and Changes in Net Deficiency
September 30, 2006 and 2005

	2006	2005 Restated
Operating revenues		
Power	\$ 51,202,196	\$ 59,800,839
Water	9,246,145	9,541,082
Sewer	1,849,869	2,205,589
Electric fuel charge	14,378,371	-
Fuel surcharge	11,151,559	7,629,234
Other	498,181	841,999
Total	88,326,321	80,018,743
Less bad debts	-	(1,139,757)
Net operating revenues	88,326,321	78,878,986
Operating expenses		
Production fuel	76,027,452	59,246,625
General and administrative	13,425,821	16,270,152
Depreciation	8,213,412	8,182,733
Other production	5,392,323	5,291,414
Maintenance	3,812,540	5,132,005
Supplies	350,495	579,358
Other	507,800	338,431
Total operating expenses	107,729,843	95,040,718
Loss from operations	(19,403,522)	(16,161,732)
Non-operating revenues (expenses)		
Recovery of bad debts	15,273,467	-
Interest income	352,287	276,790
Miscellaneous income	67,104	-
Gain on sale of capital assets	-	27,265
Settlement income (expense)	(51,963)	795,800
Contribution to the primary government	(694,759)	(694,759)
Interest expense	(11,305,267)	(10,598,165)
Total non-operating revenues (expenses), net	3,640,869	(10,193,069)
Cost to be recovered in future period	1,041,961	-
Net loss before capital contributions	(14,720,692)	(26,354,801)
Capital contributions	7,300,971	3,906,378
Change in net deficiency	(7,419,721)	(22,448,423)
Net deficiency, beginning	(57,965,193)	(30,332,640)
Restatement	-	(5,184,130)
Net deficiency, ending	\$ (65,384,914)	\$ (57,965,193)

See accompanying notes to financial statements.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Statements of Cash Flows
September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u> <u>Restated</u>
Cash flows from operating activities:		
Cash received from customers	\$ 86,615,439	\$ 79,227,637
Cash payments to suppliers for goods and services	(79,994,106)	(69,396,022)
Cash payments to employees for services	<u>(8,953,998)</u>	<u>(12,607,597)</u>
Net cash used for operating activities	<u>(2,332,665)</u>	<u>(2,775,982)</u>
Cash flows from noncapital financing activities:		
Advances from primary government	<u>180,911</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>180,911</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,752,064)	(4,318,383)
Proceeds from sale of capital assets	-	27,265
Capital contributions received	7,599,393	4,449,216
Principal repayment of debt	(4,567,186)	(1,572,858)
Interest paid on outstanding debt	(1,195,152)	(1,151,417)
Net decrease (increase) in restricted time certificates of deposit	<u>(279,189)</u>	<u>6,240,209</u>
Net cash provided by (used for) capital and related financing activities	<u>(194,198)</u>	<u>3,674,032</u>
Cash flows from investing activities:		
Interest received on time certificates of deposit	<u>352,287</u>	<u>276,790</u>
Net cash provided by investing activities	<u>352,287</u>	<u>276,790</u>
Net change in cash and cash equivalents	(1,993,665)	1,174,840
Cash and cash equivalents at beginning of year	<u>11,386,343</u>	<u>10,211,503</u>
Cash and cash equivalents at end of year	<u>\$ 9,392,678</u>	<u>\$ 11,386,343</u>
Cash and cash equivalents	\$ 1,521,874	\$ 3,794,728
Restricted cash and cash equivalents	<u>7,870,804</u>	<u>7,591,615</u>
	<u>\$ 9,392,678</u>	<u>\$ 11,386,343</u>

See accompanying notes to financial statements.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Statements of Cash Flows
September 30, 2006 and 2005

	2006	2005 Restated
Reconciliation of loss from operations to net cash used for operating activities:		
Loss from operations	\$ (19,403,522)	\$ (16,161,732)
Adjustments to reconcile loss from operations to net cash used for operating activities:		
Depreciation	8,213,412	8,182,733
Decrease in provision for inventory obsolescence	-	-
Provision for bad debts	-	1,139,757
Recovery of bad debts	(15,273,467)	-
Miscellaneous income	(67,104)	-
Settlement income	54,963	795,800
Restatement	5,184,130	-
(Increase) decrease in assets		
Accounts receivable - utility	12,816,596	(1,401,765)
Other receivables	304,474	(831,043)
Inventory	(1,246,904)	2,135,711
Increase (decrease) in liabilities		
Accounts payable	2,179,934	3,080,362
Accrued liabilities	(77,902)	(388,523)
Accrued payroll	(251,757)	137,672
Compensated absences	(104,032)	(110,856)
Customer deposits	508,619	645,902
Long-term debt	4,829,895	-
Net cash used for operating activities	<u>\$ (2,332,665)</u>	<u>\$ (2,775,982)</u>
Supplemental disclosure of noncash capital and related financing and operating activities:		
Accrual of progress billings related to various ongoing capital projects:		
Noncash increase in due from grantor agencies	\$ -	\$ 366,659
Noncash increase in accrued liabilities	-	(366,659)
	<u>\$ -</u>	<u>\$ -</u>
Conversion of accounts payable to notes payable		
Noncash decrease in accounts payable	\$ (4,829,895)	\$ (3,710,018)
Noncash increase long-term debt	4,829,895	3,710,018
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

COMMONWEALTH UTILITIES CORPORATION
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Supplementary Information
Statement of Revenues, Expenses and Changes in Net Deficiency on a Divisional Basis
September 30, 2006

	Power	Water	Sewer	Administrative and General	Internal Revenues and Expenses	Total 2006
Operating revenues:						
Governmental						
CNMI Government	\$ 7,931,168	\$ 2,601,200	\$ 1,042,744	\$ -	\$ -	\$ 11,575,112
CNMI Agencies	4,652,630	1,804,899	445,306	-	(2,281,614)	4,621,221
Total governmental	12,583,798	4,406,099	1,488,050	-	(2,281,614)	16,196,333
Commercial	45,224,203	2,252,592	530,863	-	-	48,007,658
Residential	22,556,998	3,300,835	153,699	-	-	26,011,532
Other	(1,351,259)	(713,382)	(322,743)	498,182	-	(1,889,202)
Total operating revenues	79,013,740	9,246,144	1,849,869	498,182	(2,281,614)	88,326,321
Bad debts	-	-	-	-	-	-
Net operating revenues	79,013,740	9,246,144	1,849,869	498,182	(2,281,614)	88,326,321
Operating expenses:						
Production fuel	76,027,452	-	-	-	-	76,027,452
General and administrative	5,106,840	2,163,221	1,052,630	5,103,130	-	13,425,821
Depreciation	4,698,953	2,319,002	1,073,615	121,842	-	8,213,412
Other production	4,491,234	2,406,569	629,738	146,396	(2,281,614)	5,392,323
Maintenance	3,316,012	332,309	89,214	75,005	-	3,812,540
Supplies	50,285	249,461	5,765	44,984	-	350,495
Other	-	-	-	507,800	-	507,800
Total operating expenses	93,690,776	7,470,562	2,850,962	5,999,157	(2,281,614)	107,729,843
Earnings (loss) from operations	(14,677,036)	1,775,582	(1,001,093)	(5,500,975)	-	(19,403,522)
Non-operating revenues (expenses):						
Recovery of bad debts	-	-	-	15,273,467	-	15,273,467
Interest income	-	-	-	352,287	-	352,287
Miscellaneous income	-	-	-	67,104	-	67,104
Gain on sale of capital assets	-	-	-	-	-	-
Settlement expense	-	-	-	(51,963)	-	(51,963)
Contribution to the primary government	-	-	-	(694,759)	-	(694,759)
Interest expense	(10,486,478)	(813,798)	(4,991)	-	-	(11,305,267)
Total non-operating revenues	(10,486,478)	(813,798)	(4,991)	14,946,136	-	3,640,869
Cost to be recovered in future period	1,041,961	-	-	-	-	1,041,961
Net income (loss) before capital contributions	(24,121,553)	961,784	(1,006,084)	9,445,161	-	(14,720,692)
Capital contributions	2,023,758	457,261	4,819,952	-	-	7,300,971
Change in net deficiency	\$ (22,097,795)	\$ 1,419,045	\$ 3,813,868	\$ 9,445,161	\$ -	\$ (7,419,721)

See accompanying notes to financial statements.