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

YEAR ENDED SEPTEMBER 30, 2004

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2004 AND 2003

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Board of Directors Commonwealth Utilities Corporation:

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

Except as discussed in the following paragraphs, 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 CUC's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In connection with our audit of the financial statements for the year ended September 30, 2004, we were unable to obtain responses from CUC's legal counsel and attorney to certain audit inquiries concerning litigation, claims and assessments that might affect such financial statements. Accordingly, we were unable to determine the impact of this matter on the accompanying financial statements.

Because of inadequacies in the accounting records and internal control, we were unable to determine that inventory, due from grantor agencies, utility plant, accounts payable and obligations under capital lease were fairly stated as of September 30, 2004 and 2003. Furthermore, in our judgment, these balances materially affect the determination of results of operations and cash flows for the years ended September 30, 2004 and 2003. CUC management was unable to provide minutes of Board of Directors' meetings subsequent to December 14, 2004. Accordingly, there was an incomplete record of Board of Directors' actions and decisions subsequent to September 30, 2004.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we received responses from CUC's legal counsel and attorney concerning litigation, claims and assessments, had the propriety of inventory, due from grantor agencies, utility plant, accounts payable and obligations under capital lease as of September 30, 2004 and 2003 been determined, and had we received minutes of the Board of Directors meetings subsequent to December 14, 2004, as discussed in the third and fourth paragraphs above, such financial statements present fairly, in all material respects, the financial position of CUC as of September 30, 2004 and 2003, and changes in its net deficiency and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 6 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 Utilities Corporation'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 Utilities Corporation's basic financial statements. The Statement of Revenues and Expenses on a Divisional Basis for the year ended September 30, 2004 (page 24) is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth Utilities Corporation's management. The Statement of Revenues and Expenses on a Divisional Basis for the year ended September 30, 2004 has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, except for the effect of the matters discussed in the third and fourth paragraphs above, 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 February 21, 2007, on our consideration of the Commonwealth Utilities Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Selotte & Josephe LLC

February 21, 2007



Commonwealth Utilities Corporation



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report for the Commonwealth Utilities Corporation (CUC) presents an analysis of its financial performance during the fiscal year ended September 30, 2004, as compared to the fiscal year ended September 30, 2003. This analysis should be read in conjunction with the financial statements, which follow this section.

Accepta	2004	2003	2002
Net utility plant Current assets Restricted assets	\$ 104,542,037 24,849,221 14,853,353	\$ 104,424,658 37,883,170 8,621,642	\$ 109,103,175 39,570,265
	\$ <u>144,244,611</u>	\$ <u>150,929,470</u>	\$ <u>156,575,639</u>
Net Deficiency and Liabilities			
Net deficiency Noncurrent liabilities Current liabilities	\$ (30,332,640) 6,127,696 168,449,555	\$ (12,932,748) 6,920,434 156,941,784	\$ (4,294,157) 8,010,373 152,859,423
	\$ <u>144,244,611</u>	\$ <u>150.929.470</u>	\$ <u>156,575,639</u>
Revenues, Expenses and Changes in Net Deficiency			
Gross operating revenues Bad debts Operating expenses	\$ 71,388,171 (6,921,530) (79,943,257)	\$ 71,353,881 (2,784,360) (70,340,366)	\$ 70,153,781 (1,764,084) (70,548,389)
Loss from operations	(15,476,616)	(1,770,845)	(2,158,692)
Interest income Interest expense Contribution to the primary government	203,568 (10,177,630) (666,695)	311,181 (9,760,707) (648,468)	399,110 (9,381,066) (637,061)
Total nonoperating revenues (expenses), net	(10,640,757)	(10,097,994)	(9,619,017)
Capital contributions	8,717,481	3,230,248	4,697,950
Change in net deficiency	(17,399,892)	(8,638,591)	(7,079,759)
Net assets (deficiency), beginning of year	(12,932,748)	(4,294,157)	2,785,602
Net deficiency, end of year	\$ <u>(30,332,640</u>)	S <u>(12,932,748</u>)	S <u>(4,294,157</u>)

REQUIRED FINANCIAL STATEMENTS

CUC's accounting policies conform to accounting principles generally accepted in the United States of America, as applicable to government entities, specifically proprietary funds. CUC's activities are financed and operated in a manner similar to a business enterprise.

The Statement of Net Deficiency includes all of CUC's assets and liabilities associated with the operation of proprietary funds. It provides information about the nature and amount of investments in resources and the obligations to creditors. Net assets represent the resources an entity has left to use after its debts are settled. However, those resources may not always be available for spending; restrictions may be attached. To clarify these issues, net assets are divided into three categories: capital assets, net of related debt, which cannot be sold or converted to cash; restricted assets and unrestricted net assets, which may be used in any purpose.

The Statement of Revenues, Expenses and Changes in Net Deficiency account for all the revenues and expenses and gains and losses arising from the ongoing operations of CUC. This Statement measures the success of CUC in using the resources committed to its operations. The components in this report are important in that they can be used to predict future income and cash flows.

The Statement of Cash Flows provides information about CUC's cash flows for the period, which are classified according to four main activities: (1) operating, (2) non-capital financing, (3) capital and related financing, and (4) investing. The Statement reports the net cash provided by and or used by each activity and explains the net increase or decrease in cash and cash equivalents.

FINANCIAL ANALYSIS OF CUC AS A WHOLE

For the year ended September 30, 2004, CUC had a loss from operations of approximately \$15.5 million as compared to a loss of about \$1.8 million for the year ended September 30, 2003.

During the year ended September 30, 2004, CUC's operating revenues increased overall by \$34,000 (less than 0.1%), when compared to revenues for the year ended September 30, 2003. Revenues increased for water by about \$1.3 million (16%) and for sewer by \$77,000 (3%). The increases in water and sewer revenues were due primarily to adjustments to customer billings for previously unbilled charges. Revenues decreased for power by about \$439,000 (0.7%) and for other revenue (late fees) by about \$900,000 (62%). The slight decrease in power revenues was due to poor economic conditions in the CNMI, which were brought on by a declining number of tourists visiting the islands and the closing of several garment-manufacturing facilities located on Saipan. The decrease in other revenues was due to the write-off and/or stoppage of charges for late fees for accounts with billing disputes.

During the year ended September 30, 2004, expenses increased substantially, which resulted in the large operating loss. Expenses increased as follows: production fuel, about \$6.5 million (19%); bad debts, over \$4.1 million (149%); other production - power purchased from an independent power producer, over \$1.7 million (38%); and maintenance, over \$1.5 million (45%).

The single largest increase in expenses was for production fuel. This increase was brought on primarily by:

(1) The world's growing demand for petroleum products.

(2) Escalating tensions in the Middle East, Africa, and other parts of the world.

(3) The occurrence of natural disasters due to extreme weather conditions in various parts of the world.

These conditions gave rise to fears of shortages of petroleum-related products; triggering significant increases in fuel prices. Thus, CUC's average cost of fuel for the year ended September 30, 2004, had risen to about \$1.05 per gallon as compared to an average of only \$0.86 per gallon for the year ended September 30, 2003.

The second largest increase in expenses was for bad debts. Each month, CUC establishes an allowance for doubtful accounts through a provision for bad debts that is charged to expense. The allowance is equal to 100% of all amounts that are past due more than 75 days including Government receivables.

In addition, increases in expenses for other production and for maintenance were interrelated. Other production expense increased due to CUC's need to purchase additional power from an independent power producer while CUC's power generating equipment was undergoing normal preventative maintenance and major repairs and or replacement of worn engine parts, foundation bolts, and cooling systems. Accordingly, maintenance expenses increased.

Conversely, expenses decreased for general and administrative by more than \$624,000 (3%), when compared to expenses for the year ended September 30, 2003. The decrease was due primarily to the implementation of austerity measures. Without these measures, CUC would have been unable to maintain an adequate supply of fuel needed to provide continuous utility services to its customers.

Capital contributions received from direct grants from the federal government and pass-thru grants received from the Commonwealth government amounted to over \$8.7 million for fiscal year 2004, as compared to \$3.2 million for fiscal year 2003. These grants were used for capital improvement projects such as adding and or upgrading power distribution lines and designing and/or constructing water and sewer lines.

ECONOMIC FACTORS AND NEXT YEAR'S PLAN OF ACTION

In order to recover at least a portion of the increased costs for production fuel, CUC plans to implement a fuel surcharge fee sometime during fiscal year 2005. By Commonwealth law, CUC cannot charge a fee of more than 3.5 cents per kilowatt-hour during the first 12 months following its implementation. Based on current fuel prices, the maximum fee would not allow CUC to recover its fuel costs.

Therefore, following the implementation of a fuel surcharge, CUC will proceed with plans to contract for a comprehensive rate study to establish rates and fees for all its utility services, in accordance with generally accepted rate making principles. The new rates and fees would be set at levels that would allow CUC to be financially independent of all appropriations by the Commonwealth legislature. As such, rates and fees would be sufficient to recover all costs associated with the operation, maintenance, transmission, generation, and delivery of each utility service; to repay any debt associated with the applicable service; and to repair and or replace related capital equipment.

Further, CUC plans to maintain its cost-cutting efforts and to streamline its operations. In this regard, CUC will place emphasis on the privatization of the power plants located on Saipan and Rota. Currently, CUC has engaged the services of a consulting firm to develop a plan of action to achieve this goal.

To improve its financial position, CUC plans to continue negotiations with the Commonwealth Development Authority (CDA) to resolve the issue of CUC's long-outstanding debt of over \$61.5 million and the related accrued interest payable of \$85.6 million as of September 30, 2004. To move this issue forward, CUC will seek the support and assistance of the Commonwealth government and the legislature.

Statements of Revenues, Expenses and Changes in Net Deficiency Years Ended September 30, 2004 and 2003

	<u>2004</u>	2003
Operating revenues: Power Water Sewer Other	\$ 59,176,587 9,365,015 2,290,258 556,311	\$ 59,615,273 8,071,618 2,213,169 1,453,821
Less bad debts	71,388,171 (6,921,530)	71,353,881 (2,784,360)
Net operating revenues	64,466,641	68,569,521
Operating expenses: Production fuel General and administrative Depreciation Other production Maintenance Supplies Other	39,812,826 18,680,894 9,107,348 6,182,042 5,026,514 683,814 449,819	33,333,642 19,305,216 8,583,344 4,471,719 3,477,406 521,115 647,924
Total operating expenses	79,943,257	70,340,366
Loss from operations	(15,476,616)	(1,770,845)
Nonoperating revenues (expenses): Interest income Interest expense Contribution to the primary government	203,568 (10,177,630) (666,695)	311,181 (9,760,707) (648,468)
Total nonoperating revenues (expenses), net	(10,640,757)	(10,097,994)
Net loss before capital contributions	(26,117,373)	(11,868,839)
Capital contributions	_8,717,481	_3,230,248
Change in net deficiency	(17,399,892)	(8,638,591)
Net deficiency - beginning	(12,932,748)	(4,294,157)
Net deficiency - ending	\$ (30,332,640)	\$ <u>(12,932,748</u>)

See accompanying notes to financial statements.

Statements of Cash Flows Years Ended September 30, 2004 and 2003

	<u>2004</u>	2003
Cash flows from operating activities:	e (7.330.33)	e (0.551.501
Cash received from customers	\$ 67,228,321	\$ 68,751,791
Cash payments to suppliers for goods and services	(55,086,809)	(48,025,092)
Cash payments to employees for services	(15,150,153)	(14,122,416)
Net cash (used for) provided by operating activities	(3,008,641)	6,604,283
Cash flows from noncapital financing activities:	((10.4/0)	(4.065.045)
Payments to primary government	<u>(618,469)</u>	(4,057,847)
Net cash used for noncapital financing activities	<u>(618,469</u>)	<u>(4,057,847</u>)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(9,224,727)	(3,904,827)
Capital contributions received	8,381,616	3,908,111
Principal repayment of debt	(931,794)	(1,154,376)
Interest paid on outstanding debt	(1,286,990)	(1,559,408)
Net increase in restricted time certificates of deposit	(57,069)	(83,627)
Net cash used for capital and related financing activities	(3,118,964)	(2,794,127)
Cash flows from investing activities:		
Interest received on time certificates of deposit	203,568	311,181
Net cash provided by investing activities	203,568	311,181
Net change in cash and cash equivalents	(6,542,506)	63,490
Cash and cash equivalents at beginning of year	16,754,009	16,690,519
Cash and cash equivalents at end of year	\$ <u>10,211,503</u>	\$ <u>16.754.009</u>
Reconciliation of loss from operations to net cash		
(used for) provided by operating activities:		
Loss from operations	\$ (15,476,616)	\$ (1,770,845)
Adjustments to reconcile loss from operations to net cash	+ (,,	. (-,,,-
(used for) provided by operating activities:		
Depreciation	9,107.348	8,583,344
Provision for bad debts	6,921,530	2,784,360
Reduction in provision for inventory obsolescence	(271,811)	(144,339)
(Increase) decrease in assets:	(4,7,011)	(111,557)
Accounts receivable:		
Utility	(5,315,273)	(2,419,189)
Other	994,457	(854,812)
Inventory	(1,656,237)	1,581,786
Increase (decrease) in liabilities:	(1,030,237)	1,561,760
Accounts payable	3,445,165	(747,987)
Accrued liabilities	(461,285)	(1,092,092)
	1	
Accrued payrol! Compensated absences	(440,562) (16,323)	101,731 (89,585)
Customer deposits	160,966	
Customer deposits	100,900	671,911
Net cash (used for) provided by operating activities	\$ <u>(3.008.641</u>)	\$ <u>6,604,283</u>
Supplemental disclosure of noncash capital and related financing and operating ac	ctivities:	
Accrual of progress billings related to various ongoing capital projects:		
Noncash increase in due from grantor agencies	\$ 20,000	\$ 510,900
Noncash increase in accrued liabilities	(20.000)	(510,900)
	\$	\$
	J	

Notes to Financial Statements September 30, 2004 and 2003

(1) Organization and Summary of Significant Accounting Policies

The Commonwealth Utilities Corporation (CUC), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), was established as a Public Corporation by CNMI Public Law 4-47, as amended by Public Law 5-47, effective October 1, 1985, and began operations on October 1, 1987. CUC was given responsibility for supervising the construction, maintenance, operations, and regulation of all utility services, including power, sewage, refuse collection, telephone, cable television, and water, provided however, that whenever feasible, CUC shall contract for private businesses to assume its duties with respect to one or more of these divisions. CUC was also designated the responsibility to establish rates, meter, bill and collect fees in a fair and rational manner from all customers of utility services in order for CUC to become financially independent of appropriations by the CNMI Legislature. CUC is governed by a nine-member Board of Directors, appointed for terms of four years by the Governor of the CNMI.

Public Law 4-47 effected transfer to CUC of identifiable assets, liabilities, operations, and unexpended capital improvement funding allocations formerly administered directly by the CNMI Department of Public Works.

The accounting policies of CUC 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. CUC has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Basis of Accounting

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 the fund are included on the statements of net assets. Proprietary fund operating statements present increases and decreases in net total assets.

The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Revenues are recorded as billed to customers on a monthly cycle billing basis. At the end of each month, unbilled revenues are accrued for each cycle based on the most recent cycle billing.

Budgets

In accordance with CNMI Public Law 3-68, the Planning and Budgeting Act of 1983, CUC submits annual budgets to the CNMI Office of the Governor.

Notes to Financial Statements September 30, 2004 and 2003

(1) Organization and Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit

For purposes of the statements of net deficiency and cash flows, cash and cash equivalents are defined as cash on hand, cash in checking and savings accounts, and short-term time certificates of deposit with maturity dates within three months of the date acquired. Time certificates of deposit with original dates greater than ninety days are separately classified on the statements of net deficiency. At September 30, 2004 and 2003, cash and cash equivalents were \$10,211,503 and \$16,754,009, respectively, and the corresponding bank balances were \$10,638,497 and \$16,737,818, respectively, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. Bank deposits in the amount of \$115,681 and \$154,189 were FDIC insured as of September 30, 2004 and 2003, respectively. CNMI law does not require component units to collateralize their bank accounts and thus, CUC's deposits in excess of FDIC insurance are uncollateralized.

Time certificates of deposit of \$6,240,209 and \$6,183,140 and cash and cash equivalents of \$2,953,271 and \$2,409,088 as of September 30, 2004 and 2003, respectively, represent customer deposits, which must be segregated pursuant to CUC policy, and accordingly, are classified as restricted in the accompanying financial statements. Cash and cash equivalents of \$5,630,207 and \$-0- as of September 30, 2004 and 2003, respectively, represent an escrow fund to be used specifically for contract payments and as security pursuant to a loan agreement with a contractor, and accordingly, are classified as restricted in the accompanying financial statements. Cash and cash equivalents of \$29,666 and \$29,414 as of September 30, 2004 and 2003, respectively, represent advances from a grantor agency for the use on a specific project and, accordingly, are classified as restricted in the accompanying financial statements.

Receivables and Allowance for Doubtful Accounts

CUC provides utility services to customers within the CNMI and bills for these services on a monthly basis. The accumulated provision for uncollectible 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. The allowance is established through a provision for bad debts charged to expense. Current policy is to provide one hundred percent of account balances greater than seventy-five days old.

Inventory

Inventories of fuel are valued at the lower of cost (first-in, first-out) or market (net realizable value). Inventories of supplies and materials are valued at average cost.

Utility Plant and Depreciation

Utility plant are stated at cost, where available. Cost of certain utility plant transferred from the CNMI Department of Public Works, is based on contract amounts to construct certain utility plant. Depreciation is calculated on the straight-line method based on the estimated useful lives of the respective assets. Current policy is to capitalize items in excess of \$300.

Notes to Financial Statements September 30, 2004 and 2003

(1) Organization and Summary of Significant Accounting Policies, Continued

Capitalization of Interest

CUC capitalizes interest in order to recognize all costs associated with non-contributed construction projects based on CUC's weighted average borrowing rate. During the years ended September 30, 2004 and 2003, eligible interest expense was not considered significant and consequently no interest has been capitalized.

Retirement Plan

CUC 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 CUC 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 CUC are established and may be amended by the Fund's Board of Trustees. CUC's contributions to the Fund for the years ended September 30, 2004, 2003 and 2002 were \$2,903,663, \$2,648,761, and \$2,620,144, respectively, equal to the required contributions for each year.

Revenue Recognition

CUC defines operating revenues as revenue generated from power, water and sewer sales and services. Operating expenses are costs incidental to the generation of operating revenues. Revenues and expenses not meeting the above definitions are classified as nonoperating revenues and expenses.

Power, water and sewer sales are recorded as billed to customers on a monthly cycle billing basis. At the end of each month, unbilled revenues are accrued for each cycle based on the subsequent cycle billing. Unbilled receivables at September 30, 2004 and 2003 are \$4,206,455 and \$4,262,100, respectively.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. The liability at September 30, 2004 and 2003 amounted to \$934,263 and \$950,586, respectively. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Accumulated sick pay benefits as of September 30, 2004 and 2003, were approximately \$2,250,816 and \$2,300,943, respectively.

Notes to Financial Statements September 30, 2004 and 2003

(1) Organization and Summary of Significant Accounting Policies, Continued

Net Assets

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

- Invested in capital assets; capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- · Restricted:

Nonexpendable - Net assets subject to externally imposed stipulations that CUC maintain them permanently.

Expendable - Net assets whose use by CUC is subject to externally imposed stipulations that can be fulfilled by actions of CUC pursuant to those stipulations or that expire by the passage of time.

Unrestricted; net assets that are not subject to externally imposed stipulations.

New Accounting Standards

For fiscal year 2005, CUC will be implementing GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3). GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest risk, GASB Statement No. 40 requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of CUC.

In November 2003, GASB issued Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. GASB Statement No. 42 establishes standards for impairment of capital assets when their service utility has declined significantly and unexpectedly. The provisions of this Statement are effective for periods beginning after December 15, 2004. Management does not believe that the implementation of this Statement will have a material effect on the financial statements of CUC.

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

Notes to Financial Statements September 30, 2004 and 2003

(1) Organization and Summary of Significant Accounting Policies, Continued

Estimates

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

Reclassification

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

(2) Due From Grantor Agencies

CUC is a subrecipient of federal grants received by the CNMI from various U.S. federal agencies. CUC follows the accounting principle generally accepted in the United States of America of recording grants-in-aid for construction or acquisition of facilities and equipment as contributions. Excess grant disbursements over receipts are recognized as due from grantor agencies until funds are received in accordance with grant terms and conditions.

Changes in the due from grantor agencies accounts for the years ended September 30, 2004 and 2003, are as follows:

	<u>2004</u>	<u>2003</u>
Balance at beginning of year Adjustment Deductions - cash receipts from grantor agencies Additions - program outlays	\$ 1,055,390 (31,698) (8,329,918) <u>8,717,481</u>	\$ 1,222,353 30,895 (3,428,106) 3,230,248
Balance at end of year	\$ <u>1,411,255</u>	\$ <u>1,055,390</u>

Notes to Financial Statements September 30, 2004 and 2003

(3) Utility Plant

Utility plant at September 30, 2004 and 2003, consists of the following:

Utility plant:	Estimated Useful Lives	Balance at October J. 2003	Additions	Deletions	Adjustments/ Reclassifications	Balance at September 30, 2004
Electric plant Water plant Sewer plant Administrative equipment	20 years 20 years 20 years 3 - 5 years	\$ 114,917,960 57,091,249 22,023,014 4,407,120	\$ 802,500 381,813 360,404 158,536	\$.	\$ 2,096,112 2,782,542 1,232,038 130,602)	\$ 117,816,572 60,255,604 23,615,456 4,535,054
1 (2		198,439,343	1,703,253		6,080,090	206,222,686
Less accumulated provision for depreciation		(105,351,027)	(9,107,348)		253,391	(114,204,984)
		93,088,316	(7,404,095)	*	6,333,481	92,017,702
Construction work in progre	ss	_11,336,342	8,290,851		(7,102,858)	12,524,335
		\$ 104,424,658	\$ 886,756	\$	\$ <u>(769,377)</u>	\$ <u>104,542,037</u>
Heiffer, alone	Estimated Useful Lives	Balance at October 1, 2002	Additions	Deletions	Adjustments/ Reclassifications	Balance at September 30, 2003
Utility plant: Electric plant Water plant Sewer plant Administrative equipment	20 years 20 years 20 years 20 years	October	Additions \$ 141,712	Deletions \$ -		September
Electric plant Water plant Sewer plant Administrative equipment	20 years 20 years 20 years 20 years	October 1, 2002 \$ 113,875,907 57,003,580 21,810,302	\$ 141,712 84,948 167,681	\$ (**)	\$ 900,341 2,721 45,031	September 30, 2003 \$ 114,917,960 57,091,249 22,023,014
Electric plant Water plant Sewer plant	20 years 20 years 20 years 20 years	October 1, 2002 \$ 113,875,907 57,003,580 21,810,302 4,247,150	\$ 141,712 84,948 167,681 155,704	\$	\$ 900,341 2,721 45,031 4,266	September 30, 2003 \$ 114,917,960 57,091,249 22,023,014 4,407,120
Electric plant Water plant Sewer plant Administrative equipment Less accumulated provision	20 years 20 years 20 years 20 years	October 1, 2002 \$ 113,875,907 57,003,580 21,810,302 4,247,150 196,936,939	\$ 141,712 84,948 167,681 155,704 550,045	\$	\$ 900,341 2,721 45,031 4,266 952,359	September 30, 2003 \$ 114,917,960 57,091,249 22,023,014 4,407,120 198,439,343
Electric plant Water plant Sewer plant Administrative equipment Less accumulated provision	Useful Lives 20 years 20 years 20 years 20 years 3 - 5 years	October 1, 2002 \$ 113,875,907 57,003,580 21,810,302 4,247,150 196,936,939 (97,044,381)	\$ 141,712 84,948 167,681 155,704 550,045 (8,583,344)	\$	\$ 900,341 2,721 45,031 4,266 952,359 276,698	September 30, 2003 \$ 114,917,960 57,091,249 22,023,014 4,407,120 198,439,343 (105,351,027)

(4) Notes Payable

A schedule of CUC's long-term debt as of September 30, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Promissory note payable to the Commonwealth Development Authority (CDA), a component unit of the CNMI. Principal amount available to \$30,000,000, interest at 7% per annum, with a maturity date of February 17, 2013. Principal and interest payments are due in quarterly payments of \$658,469.	\$ 30,000,000	\$ 30,000,000
Promissory note payable to CDA. Principal amount available to \$16,135,650, interest at 5% per annum, with a maturity date of January 12, 2014. Principal and interest payments are due in quarterly payments of \$359,514.	16,068,750	16,068,750

Notes to Financial Statements September 30, 2004 and 2003

(4) Notes Payable, Continued

Promissory note payable to CDA. Principal amount available to \$5,500,000, interest at 7% per annum, with a maturity date of January 30, 2000. Principal and interest payments are due in quarterly payments of \$276,471.

ailable al and 8,509.

2004

5,500,000

5,500,000

2003

Promissory note payable to CDA. Principal amount available to \$10,000,000, interest at 7% per annum. Principal and interest payments are due in monthly payments of \$58,509. No promissory agreement related to this note has been signed.

10,000,000 10,000,000

\$ 61,568,750 \$ 61,568,750

At September 30, 2004 and 2003, and subsequent to that date, CUC was in default of repayment terms of all notes payable to CDA. In accordance with the associated loan agreements, in the event of default, CDA may accelerate all remaining amounts due. Thus, \$61,568,750 at September 30, 2004 and 2003, associated with the notes payable to CDA along with interest payable on these notes of \$85,579,654 and \$76,689,014 at September 30, 2004 and 2003, respectively, have been classified as current liabilities within the accompanying financial statements.

On November 21, 2002, a Memorandum of Agreement (MOA) was established between CDA and CUC to waive a portion of the notes payable to CDA and the conversion into equity ownership of the balance. Public Law 13-35 effectuated terms of the MOA allowing CDA to waive \$16,068,750 and waive certain specified interest payments and for other purposes. Public Law 13-36 effectuated terms of the MOA by authorizing CUC to issue shares to CDA of cumulative nonconvertible non-transferable preferred stock valued at \$45,500,000. At September 30, 2004, terms of the MOA are being negotiated between CDA and CUC and thus the debt has not been waived and preferred stock has not been issued.

In January 2004, the Memorandum of Agreement (MOA), entered into on November 21, 2002 between CUC and CDA was amended to exclude a certain provision requiring CUC to obtain legislative approval for rate increases. As terms of the MOA are in the process of negotiations, no adjustments have been made to the accompanying financial statements.

(5) Loan Payable

On June 29, 1988, the CNMI executed a loan contract with the United States Department of Agriculture, Farmers Home Administration in the amount of \$1,033,400. The loan contract bears interest at 6.125% per annum with repayments due on January 1 beginning in 1989 and continuing through 2008. Proceeds of the loan are to be used for the acquisition and construction of improvements and replacements to the Saipan Water System, which is administered by CUC. CUC is required to deposit all water system revenue and funds it receives through the "Covenant to Establish a CNMI in Political Union With the United States of America (the Covenant)" into a water system revenue fund to provide for repayment of the loan. As of September 30, 2004 and 2003, CUC had not established the required water system revenue fund but has established separate general ledger accounts to summarize water system revenues and Covenant funds. It is CUC's intention to repay the loan from these sources and management is of the opinion that its process of accounting for water system revenues and Covenant funds is in compliance with the intent of the loan agreement.

Notes to Financial Statements September 30, 2004 and 2003

(5) Loan Payable, Continued

The following summarizes this loan payable as of September 30, 2004 and 2003:

		<u>2004</u>		<u>2003</u>
Loan payable to the U.S. Department of Agriculture with repayments due on January 1, beginning in 1989 through 2008, bearing interest at 6-1/8% per annum.	\$	203,063	\$	246,735
Less current portion	-	46,347	-	43,672
Long-term loan payable	\$.	156,716	\$	203,063

Future repayment commitments of principal and interest are as follows:

Year ending September 30,	<u>P</u>	rincipal	Ţ	nterest		<u>Total</u>
2005	\$	46,347	\$	12,438	\$	58,785
2006		49,186		9,599		58,785
2007		52,199		6,586		58,785
2008	-	55,331	ē	3,389	19-	58,720
	\$_	203,063	\$_	32,012	\$ _	235,075

Changes in long-term liabilities for the years ended September 30, 2004 and 2003, are as follows:

	Balance October 1, 2003	Additions	Reductions	Balance September 30, 2004	Due Within One Year
Notes and loans payable	\$ 61,815,485	\$ -	\$ 43,672	\$61,771,813	\$ 61,615,097
Other liabilities: Obligations under capital lease Compensated absences	7,426,149 <u>950,586</u>	<u>810,215</u>	888,122 826,538	6,538,027 934,263 \$ 69,244,103	1,062,758 438,552 \$ 63,116,407
	\$ <u>70,192,220</u>	\$ <u>810.215</u>	\$ <u>1,758,332</u>	5 09,244,103	2 02.110.407
	Balance October 1, 2002	Additions	Reductions	Balance September 30, 2003	Due Within <u>One Year</u>
Notes and loans payable	October 1,	Additions \$ -	<u>Reductions</u> \$ 41,152	September	Within
Notes and loans payable Other liabilities: Obligations under capital lease Compensated absences	October 1, 2002			September 30, 2003	Within One Year

Notes to Financial Statements September 30, 2004 and 2003

(6) Primary Government Funding

Public Law 9-66, enacted October 19, 1995, requires government agencies to pay the Commonwealth Treasurer an amount not less than the greater of 1% of its total operations budget from sources other than legislative appropriations or pursuant to any other formula, which the Public Auditor and the agency may agree, to fund the Office of the Public Auditor (OPA). During the year ended September 30, 2003, CUC and the CNMI Government, with the concurrence of OPA, offset a portion of the liability related to CNMI OPA funding against utility receivables of the CNMI Government. The offset was performed through an exchange of checks for \$3,997,847. At September 30, 2004 and 2003, CUC had an outstanding payable to the primary government in the amount of \$636,694 and \$588,468, respectively.

(7) Capital Lease

On June 10, 1997, CUC entered into an agreement with a contractor for the construction, maintenance and operation, and transfer of ownership of a 10 Megawatt Power Plant on the island of Tinian. The agreement is for a guaranteed price of \$9,959,000 plus interest and fees of \$11,641,000 payable over ten years in equal monthly installments of \$180,000. During this period, the contractor will maintain and operate the power plant and be paid operation, production and maintenance fees of \$50,000 per month in addition to the guaranteed price. Additionally, CUC will pay a production fee of two cents (\$0.02) per plant-produced kilowatt hour for as long as the operations and maintenance portion of the contract is in effect. The power plant will be turned over to CUC at the end of the ten year period from the date of substantial completion. On December 13, 1998, CUC executed a change order to expand the 10 Megawatt Power Plant to 30 Megawatts. Such expansion is to be fulfilled within the ten year period as stated in the original agreement. On May 10, 2001, CUC executed another change order (Expanded Agreement) to extend the term of the original agreement to be effective upon the execution of the expanded agreement until the later of March 31, 2020 or the completion of the term as mutually agreed upon. The expanded agreement provides for CUC to pay a base loan rate of \$0.03 plus applicable price adjustments per kilowatt-hour CUC uses each month effective March 1, 2009 until March 31, 2020. Additionally, the contractor will operate and maintain the existing distribution system of CUC for the duration of the expanded agreement at no cost to CUC. During the term of the expanded agreement, CUC is not allowed to purchase electric energy from any other producer other than the contractor for the island of Tinian.

CUC implemented accounting guidance of Emerging Issues Task Force (EITF) Issue No. 01-8, which provides guidance in determining when purchase agreements may be subject to lease accounting. CUC has determined that the agreement to purchase electricity is in fact a capital lease to acquire the plant and that the capacity payments made under the agreement are lease payments. The operation, production and maintenance payments and production fees under the agreement are reflected as energy conversion costs under other production expense.

The effects of adopting EITF No. 01-8 were to increase plant and obligations under capital lease by \$9,959,000. CUC has not obtained the actual cost of the power plant and has not obtained an appraisal to determine the fair value of the leased property, which is required by accounting principles generally accepted in the United States of America. As a result, management has not been able to assess its compliance with the EITF requirements and the impact of this matter on the accompanying financial statements is uncertain. The lease has an effective interest rate of 18%.

Notes to Financial Statements September 30, 2004 and 2003

(7) Capital Lease, Continued

CUC may, without penalty, discharge the entire outstanding balance of the guaranteed price by paying a discounted amount equal to the adjusted guaranteed price as follows:

Period	_Amount_
End of year 4	\$ 8,821,000
End of year 5	\$ 7,750,000
End of year 6	\$ 6,540,000
End of year 7	\$ 5,200,000
End of year 8	\$ 3,900,000

The annual requirement to amortize the capital lease obligations of CUC outstanding as of September 30, 2004 is as follows:

Year ending September 30,	<u>Principal</u>	Interest	Total
2005	\$ 1,062,758	\$ 1,097,242	\$ 2,160,000
2006	1,271,733	888,267	2,160,000
2007	1,521,801	638,199	2,160,000
2008	1,821,040	338,960	2,160,000
2009	860,695	39,305	900,000
	\$ <u>6,538,027</u>	\$ <u>3.001,973</u>	\$ <u>9.540,000</u>

(8) Commitments and Contingencies

Commitments

CUC has entered into a commitment to borrow \$89,000,000 from the Commonwealth Development Authority for proposed capital improvement projects. As of September 30, 2004 and 2003, CUC had entered into promissory note agreements for \$30,000,000, \$16,135,650, and \$5,500,000 against the \$89,000,000. Although CUC retains the ability to borrow, management does not believe that future borrowing will occur.

On September 23, 1996, CUC entered into an agreement with a third party for the purchase of electric power and associated services. The agreement provides for a monthly minimum purchase of 7,300,000 kilowatt-hours (KWH) at \$0.033 per KWH after January 1, 1998. Additionally, the agreement provides for periodic adjustment of the prices agreed upon but not to exceed 10% of the price then in effect. The agreement will expire on July 31, 2006 and is renewable for an additional ten year period to expire on July 31, 2016. Future minimum commitments related to the purchase of electric power are as follows:

Notes to Financial Statements September 30, 2004 and 2003

(8) Commitments and Contingencies, Continued

Commitments, Continued

Year ending September 30,	Minimum Payment
2005 2006	\$ 3,101,040 2,584,200
	\$ <u>5,685,240</u>

Contingencies

CUC entered into certain memorandums of understanding (MOUs) with developers who paid CUC sewer connection fees in excess of that required by CUC's regulations. To the extent that CUC has not complied with obligations imposed on it by the MOUs (i.e., depositing the contributions in a special fund, making accountings, and spending the contributions for specified capital improvement projects), developers could consider CUC to have breached the terms of the MOUs. The maximum amount that CUC could be required to expend pursuant to the MOUs is \$3,027,951. No provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

CUC 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. CUC currently does not maintain insurance coverage with respect to its inventory and utility plant. In the event of a loss, CUC will be self insured for the entire amount. CUC currently reports all of its risk management activities as they are incurred. No provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

CUC 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 \$1,179,015 have been set forth in CUC's Single Audit Report for the year ended September 30, 2004. 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.

(9) Subsequent Events

On October 26, 2004, CUC published proposed amendments to the Electrical Service Regulations (ESR) for a fuel surcharge. The regulation limited the fuel surcharge to a maximum of 3.5 cents per kilowatt hour (kwh) for the first calendar year after adoption of the regulation, but allowed for full cost recovery in subsequent calendar years. The regulation includes an exception, required by statute, limiting the annual increase for low volume users. After notices and hearings, the fuel surcharge was adopted in January 2005. The final regulation was published on February 17, 2005 and became effective by operation of law on February 28, 2005. As a result of the regulation being finalized in 2005, the 3.5 cents per kwh cap on the surcharge will remain in effect until the end of calendar year 2005. For calendar year 2006, the formula included in the fuel surcharge regulation will be applied to establish a new ceiling and the fuel surcharge may be increased to that ceiling over the course of the year.

Notes to Financial Statements September 30, 2004 and 2003

(9) Subsequent Events, Continued

On May 19, 2005, the Governor of the CNMI declared CUC in a State of Disaster Emergency. Through the state of emergency, the Governor invoked his constitutional authority to take all necessary measures, including but not limited to: assuming full control of CUC, suspension of regulatory statute provisions and regulations applicable to CUC including procurement, suspension of CUC's Board of Directors' powers, authority and/or responsibility during the period of the state of emergency, except as provided in writing by the Governor, and reprogramming of necessary funds to provide CUC to continue operations. Thirty day extensions of the State of Disaster Emergency declaration on CUC were declared in June, July, August, September and October 2005.

On January 27, 2006, the CNMI Governor issued Executive Order No. 2006-1 which provided for the transfer of CUC to the Department of Public Works (DPW) of the CNMI for purposes of administration and coordination as a major component of DPW equivalent to a division which will have its own chief executive officer who will have the rank of a Division Director. The Board of Directors of CUC was abolished and its functions transferred to DPW.

Subsequently, on May 5, 2006, the CNMI Governor issued Executive Order No. 2006-4 which provided for the reorganization of CUC. Under Executive Order No. 2006-4, the functions and duties of CUC are reorganized as a public corporation of the CNMI that has as its head an executive director. The role of the CUC Board of Directors is advisory. With respect to utility services that are generated or delivered in whole or in part by private businesses, the CUC Board of Directors will act as a public utility commission with respect to those services only until such time as the legislature establishes a public utility commission and the commission notifies the Board that it is ready to assume its duties and responsibilities with respect to utility services.

On June 6, 2006, the Governor of the CNMI approved Public Law (P.L.) No. 15-12 which authorized CDA to waive the sum of \$45,500,000 of the principal amount owed by CUC, such amount being the aggregate sum of all outstanding sewer and water project loans given to CUC and referenced in the amended MOA executed in January 2004, by CUC and CDA. Pursuant to the same amended MOA, CDA is authorized to waive any and all accrued interest owed by CUC on all outstanding loans in accordance with the terms and conditions of the amended MOA. Section 2 of the P.L. provides that in the event that the power generation system for the CNMI is privatized and controlled by an independent power producer, fifty percent of the principal amount of \$45,500,000 shall be paid by the independent power producer to CDA. On January 23, 2007, the Governor of the CNMI approved P.L. 15-44 to amend section 2 of P.L. 15-12. P.L. 15-44 removes the fifty per cent (\$22,750,000) payment requirement by the independent power producer and instead requires such amount to be rebated to residential power consumers in the event that the power generation system is privatized and controlled by an independent power producer. The rebate shall be subject to review and approval of the Public Utilities Commission upon privatization. As of September 30, 2004, no adjustments have been made to the accompanying financial statements as CUC and CDA have yet to finalize an agreement on the execution of the provisions of P.L. 15-2 and 15-44.

Notes to Financial Statements September 30, 2004 and 2003

(9) Subsequent Events, Continued

In July 2006, the CUC Electric Service Regulations, Part 24 Rate Schedules was amended to implement an adjustment of the utility rate structure. The amendment of the CUC Electric Service Regulations is in accordance with the recommendations and findings set forth in a comprehensive electric, sewer and wastewater rate study prepared for CUC by a consultant. The fuel surcharge fee, made effective on February 27, 2005, as Part 24.5.8 of the CUC Electric Service Regulations, was rescinded as of the effective date of the amendments to Part 24 of the CUC Electric Service Regulations. The new utility rate is effective beginning with August 2006 utility consumption and was formally adopted on October 24, 2006.

In July 2006, CUC decided not to renew the agreement, which expires on July 31, 2006, with a contractor for the purchase of electric power and associated services. However, the contractor is defending its rights to the extension of the agreement. Under the agreement, the contract is renewable for an additional ten year period to expire on July 31, 2016. CUC may have to pay the contractor approximately \$8,000,000 if the contract is terminated. The arrangements between CUC and the contractor on this matter are currently under negotiation. At September 30, 2004, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Statement of Revenues, Expenses and Changes in Net Assets on a Divisional Basis Year Ended September 30, 2004

	Power	Water	Sewer	Administrative and General	Internal Revenues and Expenses (1)	Total
Operating revenues:						
Governmental:				_	_	
CNMI Government	\$ 6.060.228	\$ 2.220.600		S	\$ -	\$ 9.300,272
CNMI agencies	4.134.302	1.439,806	427.478		(2.594.598)	3.406.988
Total governmental	10.194.530	3.660.406	1,446,922	(*)	(2.594.598)	12,707,260
Commercial	34,219,593	3.090,363	_			37,309,956
Residential	17.381.035	2.932.908	882,296	2	8	21.196.239
Grants and contributions	394,477	3.518		5.940		403.935
Other	(418, 450)	(322.180)	(38.960)		198	(229.219)
	(110(150)	(522.100)	(50.700)	337.311		(22/20(7)
	61.771.185	9.365.015	2.290,258	556.311	(2.594.598)	71,388,171
Less bad debts	*	350		(6.921.530)		(6.921.530)
Net operating revenues	61.771.185	9.365.015	2.290,258	(6.365,219)	(2.594.598)	64.466.641
Operating expenses:	*******					
Production fuel	39.812.826		1000	<u> </u>		39.812.826
General and administrative	6.761.119	2.955.588	1.500.675	7.463.512	•	18.680.894
Depreciation	5.662,799	3.179.618	180.937	83,994		9.107.348
Other production	5.858.177	2.084.131	771,360	62,972	(2.594.598)	
Maintenance	3.498.569	829,491	549,318	149.136		5.026,514
Supplies	270.335	229,999	50,948	132,532		683.814
Other	-			449.819		449,819
Total operating expenses	61.863.825	9.278.827	3.053,238	8.341.965	(2.594.598)	79.943.257
Earnings (loss) from						
operations	(92.640)	86,188	(762,980)	(14,707,184)	_	(15.476,616)
operations	(72.040)	00.100	(702,780)	(14,707,104)		(13.476.010)
Nonoperating revenues (expenses):						
Interest income	E#31	-	340	203,568	=	203.568
Interest expense	(9.356.878)	(820,752)		0.70	7.	(10.177.630)
Contribution to the primary						
government				(666.695)		(666.695)
Total nonoperating						
revenues (expenses), net	(9.356,878)	(820,752)		(463,127)		_(10.640.757)
revenues (expenses). Her	(7.550.070)	(020.732)		(403,127))	(10.040.737)
Net loss before capital		_				
contributions	(9.449.518)	(734.564)	(762.980)	(15.170.311)	-	(26.117.373)
Capital contributions	8.717.481					8.717.481
au						
Change in net deficiency	\$ (732.037)	\$ (734,564)	5 (762,980)	\$(15,170,311)	<u>s</u> -	<u>\$ (17.399.892)</u>

⁽¹⁾ The Water and Sewer Divisions recognize an expense for power supplied by the Power Division to operate their facilities. The Power division recognizes internal revenue for the corresponding amount.

See accompanying independent auditors' report.