

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component Unit of the Commonwealth**  
**of the Northern Mariana Islands)**

Report on the Audit of Financial Statements  
in Accordance with the Uniform Guidance  
September 30, 2022 and 2021

**Burger • Comer & Associates**  
1930 Picarro Ln  
I Liyang Village  
Saipan, MP 96950

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component Unit of the Commonwealth**  
**of the Northern Mariana Islands)**

Financial Statements and Supplementary Information  
September 30, 2022 and 2021  
(With Independent Auditor's Report Thereon)

**Burger • Comer & Associates**  
1930 Picarro Ln  
I Liyang Village  
Saipan, MP 96950

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component Unit of the Commonwealth of the Northern Mariana Islands)**

Report on the Audit of Financial Statements in Accordance with the Uniform Guidance  
Years ended September 30, 2022 and 2021

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Commonwealth Utilities Corporation

**Opinion**

We have audited the accompanying financial statements of the Commonwealth Utilities Corporation (CUC) as of and for the years ended September 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the CUC's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of CUC as of September 30, 2022 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Except for the effects of the matter described in the "Basis for Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth Utilities Corporation as of September 30, 2021, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CUC, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

We were unable to determine the propriety of inventory quantities as we did not observe the inventory count as of September 30, 2021.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CUC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

**Saipan Office**

1930 Picarro Ln I Liyang Village  
PO Box 504053 Saipan, MP 96950  
Tel Nos. (670) 235-8722 (670) 233-1837  
Fax Nos. (670) 235-6905 (670) 233-8214

**Guam Office**

333 South Marine Corps Drive  
Tamuning, Guam 96913  
Tel Nos. (671) 646-5044 (671) 472-2680  
Fax Nos. (671) 646-5045 (671) 472-2686

**Palau Office**

PO Box 1266  
Koror, PW 96940  
Tel Nos. (680) 488-8615  
Fax Nos. (680) 488-8616

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CUC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the CUC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CUC's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Bryce Conner & Associates*

Saipan, MP  
June 26, 2024

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

**MANAGEMENT'S DISCUSSION & ANALYSIS**  
September 30, 2022

This discussion and analysis of the Commonwealth Utilities Corporation's (CUC) financial performance provides an overview of CUC's activities for the fiscal year ended September 30, 2022 with comparisons to the prior fiscal year ended September 30, 2021. We encourage readers to consider the information presented here in conjunction with the financial statements, related notes and supplementary information (pages 11 through 50).

	<u>2022</u>	<u>2021 Restated</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Assets and Deferred Inflow of Resources</b>				
Current unrestricted assets	\$ 98,282,137	\$ 87,344,331	\$ 10,937,806	12.5%
Current restricted assets	13,316,025	12,742,111	573,914	4.5%
Noncurrent assets	123,085,882	120,505,811	2,580,071	2.1%
Deferred outflows of resources	<u>1,242,434</u>	<u>6,752,827</u>	<u>(5,510,393)</u>	-81.6%
	<u>\$ 235,926,478</u>	<u>\$ 227,345,080</u>	<u>\$ 8,581,398</u>	3.8%
<b>Liabilities and Net Position</b>				
Current liabilities	\$ 39,783,298	\$ 36,555,378	\$ 3,227,920	8.8%
Noncurrent liabilities	17,998,483	10,081,649	7,916,834	78.5%
Net investment in capital assets	123,085,882	120,505,811	2,580,071	2.1%
Restricted	45,000,000	45,000,000	-	0.0%
Unrestricted	<u>10,058,815</u>	<u>15,202,242</u>	<u>(5,143,427)</u>	-33.8%
	<u>\$ 235,926,478</u>	<u>\$ 227,345,080</u>	<u>\$ 8,581,398</u>	3.8%
<b>Revenues, Expenses and Changes in Net Position</b>				
	<u>2022</u>	<u>2021 Restated</u>	<u>\$ Change</u>	<u>% Change</u>
Net operating revenues	\$ 103,822,873	\$ 68,579,427	\$ 35,243,446	51.4%
Operating expenses	<u>120,100,950</u>	<u>83,270,803</u>	<u>36,830,147</u>	44.2%
Operating loss	(16,278,077)	(14,691,376)	(1,586,701)	10.8%
Non-operating revenues (expense), net	<u>(2,237,736)</u>	<u>20,883,375</u>	<u>1,586,701</u>	7.6%
Income (loss) before capital contributions from primary government	(18,515,813)	6,191,999	1,586,701	25.6%
Capital contributions from primary government	<u>15,855,206</u>	<u>14,082,887</u>	<u>(1,586,701)</u>	-11.3%
Change in net position	(2,660,607)	20,274,886	1,586,701	7.8%
Net position at beginning of year	180,708,053	160,739,692	(1,586,701)	-1.0%
Adjustments to net position at beginning of year	<u>97,251</u>	<u>(306,525)</u>	<u>(1,586,701)</u>	0.0%
Net position at end of year	<u>\$ 178,144,697</u>	<u>\$ 180,708,053</u>	<u>\$ (1,586,701)</u>	-0.9%

# COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

## MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2022

For the year ended September 30, 2022, CUC incurred a loss from operations of about \$16.3 million as compared to a loss of \$14.7 million for the year ended September 30, 2021.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of this report presents the CUC's financial statements as two components: basic financial statements and notes to the financial statements. It also includes supplemental information.

#### *Basic Financial Statements*

The *Statements of Net Position* present information on assets and deferred outflows of resources, as well as liabilities and deferred inflows of resources, with the difference between them presented as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of CUC is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Position* report how net position has changed during the year. They compare related operating revenues and operating expenses connected with CUC's principal business of providing power, water, and sewer services. Operating expenses include the cost of direct services to customers, administrative expenses, contracted services, and depreciation on capital assets. All other revenues and expenses are reported as non-operating.

The *Statements of Cash Flows* report inflows and outflows of cash, classified into four major categories:

- Cash flows from operating activities include transactions and events reported as components of operating income in the Statement of Revenues, Expenses and Changes in Net Position.
- Cash flows from non-capital financing activities include operating grant proceeds.
- Cash flows from capital and related financing activities include the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets, and the proceeds of capital grants and contributions.
- Cash flows from investing activities include proceeds from sale of investments, receipt of interest and changes in the fair value of investments subject to reporting as cash equivalents. Outflows in this category include the purchase of investments.

# COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

## MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2022

### *Notes to the Financial Statements*

Various notes provide additional information essential to a full understanding of the data provided in the basic financial statements, which are found immediately following the financial statements to which they refer.

### *Other Information*

This report also presents supplementary information concerning CUC's Schedule of Revenues, Expenses, and Changes in Net Position on a Divisional Basis (see pages 47 through 50).

## ANALYSIS OF BASIC FINANCIAL STATEMENTS

### *Condensed Statements of Revenues, Expenses and Change in Net Position*

	<u>2022</u>	<u>2021 Restated</u>
Operating revenues, net	\$ 103,822,873	\$ 68,579,427
Operating expenses	<u>120,100,950</u>	<u>83,270,803</u>
Loss from operations	(16,278,077)	(14,691,376)
Nonoperating revenues (expenses), net	3,272,657	21,472,204
Change in recovery of fuel costs	<u>(5,510,393)</u>	<u>(588,829)</u>
Net earnings (loss) before capital contributions and federal grants	(18,515,813)	6,191,999
Capital contributions and federal grants	<u>15,855,206</u>	<u>14,082,887</u>
Change in net position	(2,660,607)	20,274,886
Adjustment to retained earnings	97,251	(306,525)
Net position, beginning	<u>180,708,053</u>	<u>160,739,692</u>
Net position, ending	<u>\$ 178,144,697</u>	<u>\$ 180,708,053</u>

CUC's loss from its operations for the fiscal year ended September 30, 2022 is \$16.3 million.

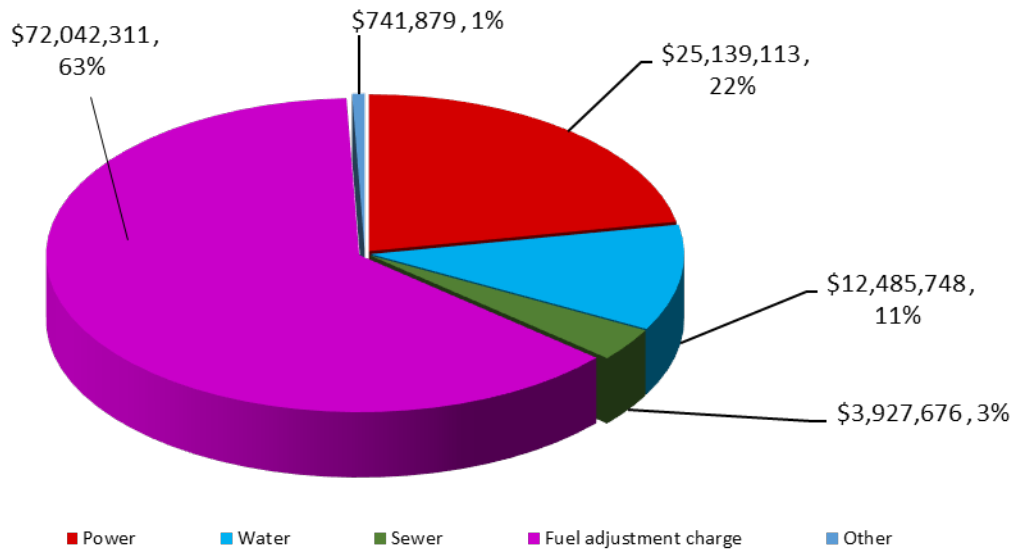
**COMMONWEALTH UTILITIES CORPORATION**  
(A Component Unit of the CNMI Government)

**MANAGEMENT'S DISCUSSION & ANALYSIS**  
September 30, 2022

**Financial Highlights**

**Operating Revenues**

	2022	2021 Restated	\$ Change	% Change
Power	\$ 25,139,113	\$ 21,343,483	\$ 3,795,630	17.8%
Water	\$ 12,485,748	\$ 10,734,812	\$ 1,750,936	16.3%
Sewer	\$ 3,927,676	\$ 3,629,171	\$ 298,505	8.2%
Fuel adjustment charge	\$ 72,042,311	\$ 36,269,886	\$ 35,772,425	98.6%
Other	\$ 741,879	\$ 680,447	\$ 61,432	9.0%
<b>Total</b>	<b>\$ 114,336,727</b>	<b>\$ 72,657,799</b>	<b>\$ 41,678,928</b>	<b>57.4%</b>

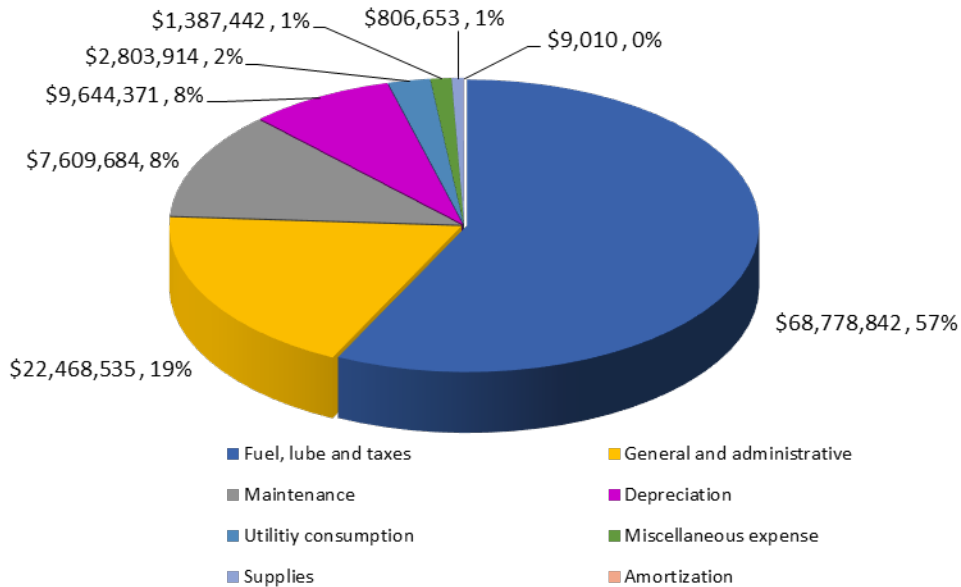


**COMMONWEALTH UTILITIES CORPORATION**  
(A Component Unit of the CNMI Government)

**MANAGEMENT'S DISCUSSION & ANALYSIS**  
September 30, 2022

**Operating Expenses**

	2022	2021 Restated	\$ Change	% Change
Fuel, lube and taxes	\$ 68,778,842	\$ 37,918,469	\$ 30,860,373	81.4%
General and administrative	\$ 22,468,535	\$ 17,642,751	\$ 4,825,784	27.4%
Maintenance	\$ 14,202,183	\$ 14,159,027	\$ 43,156	0.3%
Depreciation	\$ 9,644,371	\$ 11,125,418	\$ (1,481,047)	-13.3%
Utility consumption	\$ 2,803,914	\$ 791,725	\$ 2,012,189	254.2%
Miscellaneous expense	\$ 1,387,442	\$ 945,477	\$ 441,965	46.7%
Supplies	\$ 806,653	\$ 684,933	\$ 121,720	17.8%
Amortization	\$ 9,010	\$ 3,003	\$ 6,007	200.0%
<b>Total</b>	<b>\$ 120,100,950</b>	<b>\$ 83,270,803</b>	<b>\$ 36,830,147</b>	<b>44.2%</b>



CUC performed a physical count of all fixed assets and inventories and compared them to CUC's accounting records for completeness and accuracy. Furthermore, CUC maintains and performs the full valuation of its fixed assets and inventories. CUC expanded its financial software capabilities to include the Fixed Asset Module of the GP system.

# COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

## MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2022

### Capital Assets

On September 30, 2022, CUC had \$123,085,882 invested in capital assets, net of depreciation where applicable, including electric plant, water plant, sewer plant, administrative equipment, construction in progress, and leased assets.

	<u>2022</u>	<u>2021 Restated</u>
Utility plant in service		
Electric plant	\$ 180,221,550	\$ 180,321,876
Water plant	88,768,733	88,906,700
Sewer plant	58,452,086	56,459,596
Administrative equipment	<u>4,138,737</u>	<u>4,367,733</u>
	331,581,106	330,055,905
Accumulated depreciation	<u>(234,193,218)</u>	<u>(225,558,463)</u>
Depreciable assets, net	97,387,888	104,497,442
Right-to-use leased asset		
Land	360,408	360,408
Accumulated amortization	<u>(12,013)</u>	<u>(3,003)</u>
	348,395	357,405
Construction work-in progress	<u>25,349,599</u>	<u>15,650,964</u>
Capital assets, net	<u>\$ 123,085,882</u>	<u>\$ 120,505,811</u>

For additional information regarding capital asset activity, refer to Note 8 in the accompanying notes to the financial statements.

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

**MANAGEMENT'S DISCUSSION & ANALYSIS**  
September 30, 2022

**Debt**

Long-term debt as of September 2022 and 2021 are as follows:

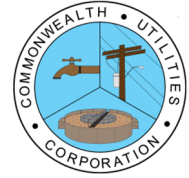
	<u>2022</u>	<u>2021 Restated</u>
U.S. Environmental Protection Agency	\$ 144,375	\$ 223,125
U.S. Coast Guard	543,125	839,375
Current maturities	<u>375,000</u>	<u>375,000</u>
Long-term debt	<u>\$ 1,062,500</u>	<u>\$ 1,437,500</u>

For additional information regarding long-term debt activity, refer to Note 13 in the accompanying notes to the financial statements.



# COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)



## MANAGEMENT'S DISCUSSION & ANALYSIS

Year Ended September 30, 2022

### EXECUTIVE SUMMARY AND OUTLOOK

#### Overview

The Commonwealth Utilities Corporation (CUC) continued to experience operational and financial challenges in FY 2022. The recovery efforts after Super Typhoon Yutu placed a major financial strain on the utility's ability to maintain daily operational functions as the reimbursements for disaster recovery funds were still in process. Just as well, the Commonwealth of the Northern Mariana Islands (CNMI) was not spared from the social and economic impacts of the COVID-19 pandemic that the rest of the world experienced in the years 2020-2022. The closure of the tourism industry negatively impacted CUC's revenue generating capacity. In the first quarter of FY 2022, CUC operations had its labor challenges as the CNMI positive cases rose and quarantine requirements were in effect.

#### Power Generation

The late onset of the COVID19 pandemic positive cases affected the CNMI in the first quarter of FY 2022 placed a strain on the power generation facilities on all three (3) islands. However, CUC managed to continue uninterrupted electrical services to the community with the implementation of the utility's COVID19 emergency protective measures. Despite the setbacks from the typhoon and pandemic, CUC and the CNMI achieved a major milestone with the completion of the Stipulated Order No. 2 (SO 2) projects and the closure of this consent decree.

On the island of Saipan, the decrease of power demand caused by the pandemic aided CUC's generating capacity. The increase in reserved capacity allowed for the maintenance of the aged diesel engines (45 plus years old) to commence. CUC was also successful in securing the procurement of a new 8.7MW diesel engine and continued with the emergency independent power purchase provider, Aggreko. The generation of additional power generation from the Aggreko plant ensured CUC's electrical services to the community and allowed for CUC to perform the overdue maintenance for the existing diesel engines.

On Rota, like the rest of the CNMI, power services to the community were not affected. During this period CUC completed the required SO 2 projects, such as the oil-water separator, berm, and monitoring program to ensure the safety of the environment from potential oil or fuel spills.

On Tinian, the independent power purchase contractor, Telesource Inc. worked on the required contractual tasks to bring the power plant facility into compliance. CUC extended this contract to ensure electrical services continued to the community. CUC worked with the CNMI government and US Department of Defense to guarantee electrical services to the divert airfield project.



# COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)



Year Ended September 30, 2022

## EXECUTIVE SUMMARY AND OUTLOOK, CONTINUED

### Power Transmission and Distribution

With the aftermath of two typhoons and a Pandemic affecting CUC's revenue generating capacity, management continued to work with the State Hazard Mitigation Grant Program to fund major investments in Saipan, Tinian, and Rota to replace wooden poles with concrete for a more resilient power distribution system. CUC completed the replacement of the power poles for the Isley, Obyan and As Matus well fields as part of the HMGP funded Water System Mitigation Project-Phase I.

With ARPA funding, CUC hired more staff for the Vegetation Maintenance program to maintain the vegetation near power lines to aid and minimize power system outages to the water and wastewater facilities and our customers. Additional grant funds were secured from the US Department of Interior, Office of Insular Affairs for the procurement of new heavy equipment such as bucket trucks and a new crane to aid with the replacement of wooden power poles to more resilient concrete power poles.

### Water Operations

Over the course of FY 2022, Water Operations continued austerity protective measures to remain afloat for all three (3) islands. With the assistance of federal funds from the US Environmental Protection Agency (EPA), the DOI OIA, HMGP, CDBG-DR both the Operations and Engineering sections were able to achieve and sustain 24-hour water services on the island of Saipan. A major component of this success was the re-commissioning of ten (10) water wells in Isley and Obyan with Granular Activated Carbon (GAC) treatments systems in the Isley and Obyan field in FY 2021, the completion of the new prestressed concrete San Vicente water tank and the completion of the Kagman Booster II station and transmission line improvement project and the successful water leak repairs in the San Vicente tank service area.

The PFOS/PFOA remediation and monitoring program continues to expand as CUC finalizes the plans for the large-scale GAC facility near the former Isley Booster I site to meet the CNMI's health advisory level of seventy parts per trillion.

CUC management secured additional funding from ARPA, CDBG-DR, HMGP, DOI OIA and EPA for the capital improvement projects for waterline replacements, new generator facilities, heavy equipment and vehicle purchases to aid with the shortfall of capital improvement funding from the CUC revenues. The additional grant funding made available from the Bipartisan Infrastructure Law (BIL) allowed for the improvements to the water operations and engineering organizational chart. In collaboration with EPA a significant percentage of the grant funding was appropriated to the Sustainability Water Infrastructure Management System (SWIMS) with the goal to reduce CUC's non-revenue water (NRW) percentage from 70% to at least 30% by 2027 and directly improve the quality of water to our customers.



# COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)



MANAGEMENT'S DISCUSSION & ANALYSIS  
Year Ended September 30, 2022

## EXECUTIVE SUMMARY AND OUTLOOK, CONTINUED

Towards the end of FY 2022, operations experienced one of the biggest setbacks as the roof of a buried 3-million-gallon Underground Storage Tank (UST) from the Japanese era collapsed at the Sadog Tasi operations facility. CUC management requested for funding assistance from the CNMI US Congressional Representative and other federal agencies as the UST posed as an immediate threat to the operations facility, neighboring areas and affected the Water Meter Bench Testing facility, which was located directly on top of the UST.

### Wastewater Operations

In the first quarter of FY 2022, the COVID19 pandemic quarantine requirements affected CUC wastewater operations labor force as staff became exposed to the virus. CUC management and resolute staff implemented emergency protective measures to ensure wastewater services were uninterrupted at the treatment plants and collection systems.

Just as the Water program received additional grant funding, the Wastewater program received federal funds from the US Environmental Protection Agency (EPA), the DOI OIA, HMGP, CDBG-DR for both the Operations and Engineering sections to rehabilitate and/or replace the deteriorating treatment plants, lift stations, force mains and collections system. The number of collapsed lines caused by the aged asbestos concrete pipes and the corrosive nature of the wastewater affected CUC's operations and maintenance budget in rental fees and repairs. Therefore, management requested additional grant funding for essential heavy equipment such as the sewer vac-all truck, closed circuit television video (CCTV) & grouting truck and utility trucks to aid with essential operational tasks for preventing sanitary sewer overflows.

CUC continues its plans to expand the wastewater services to the islands of Tinian and Rota as future homesteads properties become available and the US military continues to add more demand for critical utility infrastructure to meet their future needs.

## REQUESTS FOR INFORMATION

This financial report is designed to provide the citizens, taxpayers, customers, and creditors of CUC with a general overview of CUC's finances and to demonstrate accountability for the funds it manages. Please direct any questions about this report or requests for additional information about CUC's finances to:

Commonwealth Utilities Corporation  
Attn: Executive Director  
P.O. Box 501220 Saipan, MP 96950  
Or call (670) 664 4282

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

Statements of Net Position  
As of September 30, 2022 and 2021

	2022	2021 (Restated)
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>		
Current assets:		
Cash and cash equivalents - unrestricted	\$ 50,313,804	45,983,449
Cash and cash equivalents - restricted	13,316,025	12,742,111
Total cash and cash equivalents	63,629,829	58,725,560
Accounts receivable - utility, net	15,309,330	7,784,567
Due from grantor agencies	5,323,688	7,680,916
Inventory	25,471,871	24,222,910
Notes receivable, net	151,619	161,285
Prepayments and other assets, net	1,711,825	1,511,204
Total current assets	111,598,162	100,086,442
Non-current assets:		
Depreciable utility plant, net of accumulated depreciation	97,387,888	104,497,442
Non-depreciable utility plant	25,349,599	15,650,964
Right-to-use asset, net	348,395	357,405
Total non-current assets	123,085,882	120,505,811
Total assets	234,684,044	220,592,253
Deferred outflows of resources:		
Unbilled fuel cost recovery	1,242,434	6,752,827
Total deferred outflows of resources	1,242,434	6,752,827
Total assets and deferred outflows of resources	\$ 235,926,478	227,345,080
<u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued liabilities	15,402,019	12,936,254
Due to primary government	10,068,583	9,311,189
Compensated absences	1,604,922	1,604,922
Security deposits, including accrued interest	12,331,043	12,326,356
Environmental remediation liability, current portion	375,000	375,000
Operating lease liability, current portion	1,731	1,657
Total current liabilities	39,783,298	36,555,378
Non-current liabilities:		
Retirement contributions payable	3,481,607	3,467,425
Unearned local grants	12,071,126	3,579,253
Unearned revenue	503,071	535,561
Environmental remediation liability, non-current portion	687,500	1,062,500
Dividends payable	900,000	1,080,000
Operating lease liability, non-current portion	355,179	356,910
Total non-current liabilities	17,998,483	10,081,649
Total liabilities	57,781,781	46,637,027
Net position:		
Net investment in capital assets	123,085,882	120,505,811
Restricted	45,000,000	45,000,000
Unrestricted	10,058,815	15,202,242
Total net position	178,144,697	180,708,053
Total liabilities and net position	\$ 235,926,478	227,345,080

See accompanying independent auditor's report and notes to financial statements.

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component of the CNMI Government)**  
Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended September 30, 2022 and 2021

	2022	2021 (Restated)
Operating revenues:		
Power	\$ 25,139,113	21,343,483
Water	12,485,748	10,734,812
Sewer	3,927,676	3,629,171
Fuel adjustment charge	72,042,311	36,269,886
Other revenue	741,879	680,447
	114,336,727	72,657,799
Bad debts	(10,513,854)	(4,078,372)
Net operating revenues	103,822,873	68,579,427
Operating expenses:		
Fuel, lube and taxes	68,778,842	37,918,469
General and administrative	22,468,535	17,642,751
Maintenance	14,202,183	14,159,027
Depreciation	9,644,371	11,125,418
Utility consumption	2,803,914	791,725
Miscellaneous expense	1,387,442	945,477
Supplies	806,653	684,933
Amortization	9,010	3,003
	120,100,950	83,270,803
Operating income (loss)	(16,278,077)	(14,691,376)
Non-operating revenues (expenses):		
Interest income and late charges	4,813,523	4,705,378
Miscellaneous income	638,638	127,438
Recovery of bad debts	-	9,517,245
Interest expense	(15,595)	(5,214)
Settlement	(506,514)	8,428,812
Contributions to primary government	(757,395)	(401,455)
Dividends	(900,000)	(900,000)
Change in deferred fuel cost	(5,510,393)	(588,829)
	(2,237,736)	20,883,375
Income (loss) before capital contributions from primary government	(18,515,813)	6,191,999
Capital contributions from primary government	15,855,206	14,082,887
Change in net position	(2,660,607)	20,274,886
Net position at the beginning of the year	180,708,053	160,739,692
Adjustments to net position at the beginning of the year	97,251	(306,525)
Net position at the end of the year	\$ 178,144,697	180,708,053

See accompanying independent auditor's report and notes to financial statements.

**COMMONWEALTH UTILITIES CORPORATION**

**(A Component of the CNMI Government)**

Statements of Cash Flows

For the Years Ended September 30, 2022 and 2021

	2022	2021 (Restated)
	<u>                    </u>	<u>                    </u>
Cash flows from operating activities:		
Cash received from customers	\$ 101,749,029	88,612,214
Cash payments to suppliers for goods and services	(89,481,888)	(60,798,470)
Cash payments to employees for services	<u>(11,475,934)</u>	<u>(12,092,122)</u>
Net cash provided by operating activities	791,207	15,721,622
Cash flows from non-capital financing activities:		
Dividend payments	(1,080,000)	(1,620,000)
Settlement payments	(506,514)	-
Principal payments for lease liability	(1,657)	(1,841)
Principal payments for environmental liability	<u>(375,000)</u>	<u>(74,922)</u>
Net cash used for non-capital financing activities	(1,963,171)	(1,696,763)
Cash flows from capital and related financing activities:		
Capital contributions received	30,064,115	14,386,360
Capital contributions used	(11,851,681)	(916,833)
Acquisition and construction of capital assets	<u>(12,136,201)</u>	<u>(12,915,057)</u>
Net cash provided by capital and related financing activities	<u>6,076,233</u>	<u>554,470</u>
Net change in cash and cash equivalents	4,904,269	14,579,329
Cash and cash equivalents - unrestricted	45,983,449	32,015,077
Cash and cash equivalents - restricted	<u>12,742,111</u>	<u>12,131,154</u>
Balances at the beginning of the year	58,725,560	44,146,231
Cash and cash equivalents - unrestricted	50,313,804	45,983,449
Cash and cash equivalents - restricted	<u>13,316,025</u>	<u>12,742,111</u>
Balances at the end of the year	<u>\$ 63,629,829</u>	<u>58,725,560</u>

See accompanying independent auditor's report and notes to financial statements.

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

Statements of Cash Flows  
For the Years Ended September 30, 2022 and 2021

	2022	2021 (Restated)
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (16,278,077)	(14,691,376)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Bad debts	10,513,854	4,078,372
Recovery of bad debts	-	9,517,245
Depreciation	9,644,371	11,125,418
Amortization	9,010	3,003
Interest income and late charges	4,813,523	4,705,378
Miscellaneous income	638,638	127,438
Contributions to the primary government	(757,395)	(401,455)
Change in deferred fuel cost	(5,510,393)	(588,829)
Interest expense	(15,595)	(5,214)
Decrease (increase) in operating assets:		
Accounts receivable - utility, net	(18,038,617)	(6,466,991)
Inventory	(1,248,961)	(1,357,632)
Notes receivable, net	9,666	35,100
Prepayments and other assets, net	(200,621)	(32,059)
Unbilled fuel cost recovery	5,510,393	588,825
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	2,465,765	6,939,771
Due to primary government	757,394	401,454
Compensated absences	-	215,907
Security deposits, including accrued interest	4,687	(392,566)
Retirement contributions payable	14,182	(14,027)
Unearned local grants	8,491,873	1,947,548
Unearned revenue	(32,490)	(13,688)
Net cash provided by operating activities	\$ 791,207	15,721,622
Supplemental disclosure to the statement of cash flow:		
Interest expense paid	\$ 15,601	3,911
Supplemental disclosure of noncash financing and investing activities:		
Right-to-use asset acquired during the year	\$ -	360,409
Lease liability acquired during the year	\$ -	(360,409)
Reduction of partial settlement of environmental remediation obligations	\$ -	8,428,812
Adjustments to capital assets effected in retained earnings	\$ 97,251	(306,525)

See accompanying independent auditor's report and notes to financial statements.

# COMMONWEALTH UTILITIES CORPORATION

## (A Component of the CNMI Government)

Notes to the Financial Statements

September 31, 2022 and 2021

### (1) Organization

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 codified as Chapter 1 of Division 8 of Title 4 of the Commonwealth Code and began operations on October 1, 1987. Chapter 1 of Division 8 of Title 4 of the Commonwealth Code was repealed and re-enacted by Section 10 of Public Law 16-17.

CUC was given responsibility for supervising the construction, maintenance, operations, and regulation of electric, water and sewage services, provided, however, that whenever feasible, CUC shall contract with 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 for CUC to become financially independent of appropriations by the CNMI Legislature. CUC is governed by a five-member Board of Directors, appointed for terms of four years by the Governor of the CNMI with the advice and consent of the Senate.

### (2) Summary of Significant Accounting Policies

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. CUC utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

#### Basis of Accounting

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

#### Budgets

In accordance with CNMI Public Law 3-68, the Planning and Budgeting Act of 1983, CUC is required to submit annual budgets to the CNMI Office of the Governor; however, CUC is financially independent of appropriations by the CNMI Legislature.

**COMMONWEALTH UTILITIES CORPORATION**

**(A Component of the CNMI Government)**

Notes to the Financial Statements

September 31, 2022 and 2021

(2) Summary of Significant Accounting Policies, continued

Concentrations of Credit Risk

Financial instruments which potentially subject CUC to concentrations of credit risk consist principally of cash demand deposits, receivables, and receivables from related parties.

On September 30, 2022 and 2021, CUC had cash deposits in bank accounts that exceeded federal depository insurance limits. CUC has not experienced any losses on such accounts.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and savings, and short-term time certificates of deposit with a maturity date within three months of the date acquired.

Receivables

Accounts receivable are classified as current assets and are reported net of allowance for uncollectible amounts.

CUC allows customers to settle their outstanding utilities by issuing promissory notes with terms ranging from six months to ten years at an interest rate of 12% per annum. As of September 30, 2022 and 2021, CUC recorded notes receivable of \$187,596 and \$192,179, respectively, net of allowance of \$35,977 and \$30,894, respectively.

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 that management represents will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. CUC's policy (beginning in fiscal year 2013) is to provide an allowance of one hundred percent (100%) of account balances greater than sixty (60) days old.

Due from Grantor Agencies

Grant disbursements over receipts are recognized as due from grantor agencies until funds are received in accordance with grant terms and conditions. As of September 30, 2022 and 2021, CUC recorded due from grantor agencies of \$5,323,688 and \$7,680,916, respectively.

**COMMONWEALTH UTILITIES CORPORATION**

**(A Component of the CNMI Government)**

Notes to the Financial Statements

September 31, 2022 and 2021

(2) Summary of Significant Accounting Policies, continued

Inventory Valuation

Fuel and lubes inventory are valued at the weighted average valuation method. Materials and supplies inventory are valued at average cost.

Allowance for inventory obsolescence is provided for inventory items, parts and supplies for equipment no longer in use based on quadrennial reviews. Allowance for inventory obsolescence was \$742,943 as of September 30, 2022 and 2021.

Prepayments and Other Assets

Payments made to vendors for services that will benefit future periods are recorded as prepayments. As of September 30, 2022 and 2021, CUC recorded prepayments of \$1,461,744 and \$1,293,942, respectively.

Other assets consist of employee advances and other receivables stated at the amount of unpaid balances, net of allowance. CUC recorded employee and travel advances of \$15,884 as of September 30, 2022 and 2021, and other receivables of \$234,197 and \$201,378, both having a net allowance of \$721,447 as of September 30, 2022 and 2021, respectively.

Fuel Costs

CUC's fuel purchases are based on Means of Platts Singapore (MOPS) monthly pricing. Fuel cost increases or decreases billed to customers are based on price changes in fuel purchased by CUC. Under or over recovery of fuel cost is recorded as a deferred fuel cost asset or liability, respectively, in the accompanying Statement of Net Position, and is recovered in or deducted from future billings to customers based on the amendments to Part 24 of the Electric Service Regulations of the CUC adopted on July 20, 2006. The Fuel Adjustment Charge (FAC) rates are computed monthly based on MOPS.

Any difference between the actual fuel costs and the electric fuel rate is accumulated in a deferred account and is subject to annual reconciliation. No interest is charged or paid on any under or over recovery balance in the deferred account.

In its May 11, 2015 meeting, the Commonwealth Public Utilities Commission (CPUC) approved to change the Levelized Energy Adjustment Clause tariff to the FAC. It also authorized on an interim basis through the next regulatory session to adjust the FAC, in the event the MOPS monthly pricing to CUC equals or exceeds a 4.5% differential in the average per gallon cost of fuel used in the calculation of the then current FAC. In such event, CUC shall change the FAC rate to reflect the higher/lower MOPS price and shall promptly provide calculations and supporting work papers to CPUC. This change shall be

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

Notes to the Financial Statements  
September 31, 2022 and 2021

(2) Summary of Significant Accounting Policies, continued

Fuel Cost, continued

calculated on the basis of the ratio of the then current monthly MOPS pricing to the average per gallon cost of fuel used in the calculation of the current FAC rate.

Approved FAC rates for the years ended September 30, 2022 and 2021 are as follows:

<u>September 30, 2022</u>		<u>September 30, 2021</u>	
<u>Effective Date</u>	<u>FAC Rates</u>	<u>Effective Date</u>	<u>FAC Rates</u>
November 1, 2021	\$0.23296	October 1, 2020	\$0.11165
January 1, 2022	\$0.20909	January 1, 2021	\$0.13585
February 1, 2022	\$0.23908	February 1, 2021	\$0.14704
March 1, 2022	\$0.27122	March 1, 2021	\$0.16578
April 1, 2022	\$0.34564	April 1, 2021	\$0.17341
May 1, 2022	\$0.36225	July 1, 2021	\$0.19355
July 1, 2022	\$0.43285		
August 1, 2022	\$0.37241		
September 1, 2022	\$0.34235		

The unbilled fuel cost recovery at September 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
At the beginning of the year	\$ 6,752,827	7,341,652
Change in the recovery of fuel cost	(5,510,393)	(588,828)
At the end of the year	\$ 1,242,434	6,752,827

Utility Plant

Utility plant is stated at original cost, where costs are available, less accumulated depreciation. Depreciation is provided on the straight-line method based on the estimated useful lives of the respective assets, which range from 3 to 25 years. The cost of additions and replacements are capitalized. Repairs and maintenance are charged to expense as incurred. Retirements, sales and disposals are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in non-operating revenues (expenses) in the Statements of Revenues, Expenses and Changes in Net Position. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference.

# COMMONWEALTH UTILITIES CORPORATION

## (A Component of the CNMI Government)

Notes to the Financial Statements

September 31, 2022 and 2021

### (2) Summary of Significant Accounting Policies, continued

#### Utility Plant, continued

CUC's current policy is to capitalize items in excess of \$5,000. The costs of acquisition and construction of equipment and facilities are recorded as construction-in-progress until such assets are completed and placed in service, at which time CUC commences recording depreciation expense. CUC capitalizes interest cost on borrowings incurred during the new construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the estimated useful lives of the assets. There was no capitalized interest for the years ended September 30, 2022 and 2021.

#### 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 non-vesting accumulating rights to receive sick pay benefits. The accumulated vacation leave liability as of September 30, 2022 and 2021 amounted to \$1,604,922.

#### Net Position

Net position represents the residual interest in CUC's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and is classified as follows:

- Net investment in capital assets - Capital assets, net of accumulated depreciation and reduced by outstanding debt attributable to the acquisition, construction or improvements of those assets.
- Restricted:
  - Nonexpendable - Net position subject to externally imposed stipulations that CUC maintain them permanently. For the years ended September 30, 2022 and 2021, CUC's restricted nonexpendable net position pertains to the Commonwealth Economic Development Authority's (CEDA) preferred stock.
  - Expendable - Net position 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. At September 30, 2022 and 2021, CUC does not have restricted expendable net position.
- Unrestricted - Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

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

Notes to the Financial Statements  
September 31, 2022 and 2021

(2) Summary of Significant Accounting Policies, continued

Retirement Plan

CUC contributed to the Northern Mariana Islands Retirement Fund's (NMIRF) defined benefit plan (DB Plan), a cost-sharing, multiple-employer plan established and now administered by the CNMI. On September 30, 2013, the DB Plan was transferred to the Northern Mariana Islands Settlement Fund (NMISF). CUC also contributes to a defined contribution plan (DC Plan).

On August 30, 2012, Public Law 17-79 was enacted to amend Title I of the Commonwealth Code to include the intent of the CNMI to participate in the retirement insurance system established by Title II of the U.S. Federal Insurance Contributions Act (FICA) and for participation to be extended to elected officials, employees, political subdivisions and instrumentalities of the CNMI. On September 11, 2012, Public Law 17-82 CNMI Pension Reform Recovery Act of 2012 was enacted. Unless specifically exempted or authorized by federal law, Public Law 17-82 provides for mandatory membership of CNMI Government employees and elected officials in the U.S. Social Security system and authorizes employees, who elect, to buy quarters of service in the U.S. Social Security system from contributions made to the DB Plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute the employee share.

On March 11, 2013, Public Law 18-02 was enacted to amend Public Law 17-82 to clarify those provisions necessary to expedite the refunds and to prevent any further frustration of the process. Included in the public law is the amendment of Section 203(a) of Title 1, Division 8, Part 3, which states that the government obligation to withhold and remit the employee's portion to the employee's defined account shall continue with respect to employees who do not terminate membership in the DB Plan. All but seven active CUC employees voluntarily terminated membership in the DB Plan and CUC contributed \$166,121, \$132,143 and \$147,221 to the DB Plan during the years ended September 30, 2022, 2021 and 2020, respectively.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. CUC is required to contribute to each

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

Notes to the Financial Statements  
September 31, 2022 and 2021

(2) Summary of Significant Accounting Policies, continued

Defined Contribution Plan (DC Plan), continued

member's individual account an amount equal to 4% of the member's compensation. CUC's recorded DC contributions for the years ended September 30, 2022, 2021 and 2020 were \$277,718, \$221,628 and \$258,300, respectively, equal to the required contributions for each year. Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Operating and Non-Operating Revenues and Expenses

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 non-operating revenues and expenses. Nonoperating revenues and expenses result from investing and financing activities.

Revenue Recognition

Power, water and sewer 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 subsequent cycle billing. Unbilled revenues at September 30, 2022 and 2021 included as receivables in the accompanying financial statements were \$8,194,256 and \$1,862,996, respectively.

Capital Contributions and Federal Grants

Capital contributions and Federal grant revenues are recognized when allowable expenses are incurred.

Unearned Revenues

Unearned revenues arise when cash is received prior to being earned and relates to grant money and credit vouchers of \$12,071,126 and \$503,071, respectively as of September 30, 2022 and \$3,579,253 and \$535,561, respectively, as of September 30, 2021, which refers to revenues of the subsequent year.

Deferred Outflows of Resources

Deferred outflows of resources represent unbilled fuel cost recovery, which is the consumption of net position that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense) until that future time.

**COMMONWEALTH UTILITIES CORPORATION**

**(A Component of the CNMI Government)**

Notes to the Financial Statements

September 31, 2022 and 2021

(2) Summary of Significant Accounting Policies, continued

Leases

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition is accounted for under GASB Statement No. 87 unless explicitly excluded.

A contract that transfers ownership of the underlying asset to the lessee by the end of the contract and does not contain termination options but that may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised is reported as a financed purchase of the underlying asset or sale of the asset by CUC.

CUC accounts for the lease and non-lease components of a lease as separate contracts. If a lease involves multiple underlying assets, CUC, in certain cases, accounts for each underlying asset as a separate lease contract. To allocate the contract price to different components, CUC uses contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract are accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria are considered part of the same lease contract and are evaluated in accordance with the guidance for contracts with multiple components.

The lease term is defined as the period during which a lessee has a non-cancelable right-to-use (RTU) an underlying asset, plus the following periods, if applicable:

- Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option
- Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option
- Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option
- Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

# COMMONWEALTH UTILITIES CORPORATION

## (A Component of the CNMI Government)

Notes to the Financial Statements

September 31, 2022 and 2021

### (2) Summary of Significant Accounting Policies, continued

#### Leases, continued

The lease term is reassessed only if one or more of the following occur:

- The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.
- The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.
- An event specified in the lease contract that requires an extension or termination of the lease takes place.

An amendment to a lease contract is considered a lease modification unless the CUC's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. CUC accounts for lease termination by reducing the carrying values of the lease liability and lease asset or the lease receivable and deferred inflows of resources, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease is accounted for by remeasuring the lease liability and adjusting the related lease asset or remeasuring the lease receivable and adjusting the related deferred inflows of resources.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Short-term lease payments are recognized as outflows of resources or inflows of resources based on the payment provisions of the lease contract.

CUC adopted GASB Statement No. 87 retroactively by restating the financial statements for all prior periods presented.

#### Lessee Accounting

CUC recognizes a lease liability and a RTU asset at the commencement of the lease term unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability is measured at the present value of payments expected to be made during the lease term less any lease incentives. The RTU asset is measured at the amount of the initial measurement of the lease liability, including any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

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

Notes to the Financial Statements  
September 31, 2022 and 2021

(2) Summary of Significant Accounting Policies, continued

Lessee Accounting, continued

The future lease payments are discounted using the interest rate the lessor charges CUC, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined, an estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) will be used.

CUC reduces the lease liability as payments are made and recognizes an outflow of resources for interest on the liability. CUC amortizes the RTU asset using the straight-line method over the shorter of the lease term or the useful life of the underlying asset.

Variable payments based on future performance of CUC or usage of the underlying asset should not be included in the measurement of the lease liability but are recognized as outflows of resources in the period in which the obligation for those payments is incurred. However, any component of those variable payments that is fixed in substance should be included in the measurement of the lease liability.

GASB Statement No. 68

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, which revised and established new financial reporting requirements for most governments that provide their employees with pension benefits through plans that are administered through trusts. Management has determined that the CNMI is legally responsible for making contributions to NMISF as a non-employer entity and that net pension obligations are allocated in total to the CNMI. Management acknowledges the requirement to recognize revenue in an amount equal to the non-employer contributing entities' (CNMI) total proportionate share of the collective pension expense that is associated with CUC. CUC has not recorded related revenues and pension expenses for the years ended September 30, 2022 and 2021 since amounts were not available.

New Accounting Standards

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92, and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as initially issued. In accordance with GASB Statement No. 95, except for the early adoption of GASB Statement No. 89, management has elected to postpone the implementation of these statements.

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(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

During the year ended September 30, 2022, CUC implemented the following pronouncements:

- GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*, which improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and reporting requirements related to replacing Interbank Offered Rates such as the London Interbank Offered Rate (LIBOR) for hedging derivative instruments. The provision removing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of derivative instruments is effective for the year ended September 30, 2022.

The implementation of these statements did not have a material effect on the accompanying financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. This Statement aims to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the contract's payment provisions. Management believes this statement, upon implementation, had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 was adopted for the fiscal year ended September 30, 2022.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Management does not believe this statement had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 was adopted for the fiscal year ended September 30, 2022.

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(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation, establishing that a conduit debt obligation is not a liability of the issuer, establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for the fiscal year ending September 30, 2023.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during the implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to post-employment benefits. The requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. In accordance with GASB Statement No. 95, the remaining requirements of GASB Statement No. 92 were adopted for the fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for the September 30, 2023 fiscal year.

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(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines an SBITA; (2) establishes that an SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of an SBITA; and (4) requires note disclosures regarding an SBITA. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for the September 30, 2023 fiscal year.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.

The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other post-employment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that the adoption of GASB Statement No. 97 had a material effect on the financial statements. GASB Statement No. 97 was adopted for the fiscal year ended September 30, 2022.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replaces instances of comprehensive annual financial reports and its acronym in generally accepted accounting principles for state and local governments. Management does not believe this statement had a material effect on the financial statements. GASB Statement No. 98 was adopted for the fiscal year ended September 30, 2022.

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(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature.

In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

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(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Management is evaluating whether implementation of this statement will have a material impact on the financial statements.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

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(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management is evaluating whether the implementation of this statement will have a material effect on the financial statements.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

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(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Management is evaluating whether the implementation of this statement will have a material effect on the financial statements.

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.

(3) Cash and Cash Equivalents

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk and concentration of credit risk. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

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(3) Cash and Cash Equivalents, continued

As of September 30, 2022 and 2021, total unrestricted cash and cash equivalents were \$63,629,829 and \$58,725,560, respectively, and the corresponding bank balances were \$64,104,852 and \$60,874,381, respectively. Of the bank balance amounts, \$62,886,712 and \$60,204,950 are maintained in financial institutions subject to FDIC insurance. The uninsured portion are \$62,636,712 and \$59,954,950 for September 30, 2022 and 2021, respectively. CNMI law does not require component unit funds to be collateralized and thus CUC's funds, in excess of FDIC insurance, are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. Restricted cash and cash equivalents of \$13,316,025 and \$12,742,111 at September 30, 2022 and 2021, respectively, pertain to customer deposits.

(4) Accounts Receivable – Utility

Accounts receivable - utility as of September 30, 2022 and 2021 are presented below:

	2022	2021
By location:		
Saipan:		
Commercial	\$ 4,098,183	3,675,484
Residential	6,067,348	6,492,217
Government	33,003,247	22,802,322
	43,168,778	32,970,023
Tinian:		
Commercial	1,785,824	1,694,787
Residential	238,210	274,220
Government	1,142,351	643,936
	3,166,385	2,612,943
Rota:		
Commercial	214,180	184,118
Residential	274,458	272,516
Government	2,141,544	1,686,756
	2,630,182	2,143,390
Total billed	48,965,345	37,726,356
Unbilled and disputed	18,302,840	11,503,212
Accounts receivable	\$ 67,286,185	49,229,568

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Notes to the Financial Statements

September 31, 2022 and 2021

(4) Accounts Receivable – Utility, continued

	<u>2022</u>	<u>2021</u>
By customer classification:		
Billed:		
Commercial	6,098,188	5,554,389
Residential	6,580,015	7,038,953
Government	36,287,142	25,133,014
Unbilled and disputed	<u>18,302,840</u>	<u>11,503,212</u>
Accounts receivable	67,286,185	49,229,568
Allowance for uncollectible accounts	<u>(51,958,855)</u>	<u>(41,445,001)</u>
Accounts receivable, net	<u>\$ 15,309,330</u>	<u>7,784,567</u>

Changes in allowance for uncollectible accounts for the years ended September 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Total allowance, beginning of the year	\$ 41,445,001	46,883,873
Provision for uncollectible accounts	10,513,854	4,078,372
Recovery of bad debts	<u>-</u>	<u>(9,517,244)</u>
Total allowance, end of year	<u>\$ 51,958,855</u>	<u>41,445,001</u>

Information about the assessed penalties on late payments is as follows:

	<u>2022</u>	<u>2021</u>
Residential	\$ 408,837	363,849
Commercial	171,030	343,235
Government	<u>21,500,755</u>	<u>16,984,896</u>
Total assessed penalties	22,080,622	17,691,980
Allowance for uncollectible penalties	<u>(22,080,622)</u>	<u>(17,691,980)</u>
Assessed penalties, net	<u>\$ -</u>	<u>-</u>

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(5) Inventory

Inventory balances as of September 30, 2022 and 2021 are as follows:

	2022	2021
Fuel and lubes	\$ 5,544,028	2,523,801
Materials and supplies	20,670,786	22,442,052
	26,214,814	24,965,853
Allowance for obsolescence	(742,943)	(742,943)
Inventory, net	\$ 25,471,871	24,222,910

(6) Capital Contributions and Federal Grants

CUC is a recipient of direct federal awards and a sub-recipient of federal grants received by the CNMI central government from various U.S. federal agencies. CUC records grants-in-aid for the construction or acquisition of facilities and equipment as capital contributions. CUC recorded direct federal awards and sub-recipients of federal grants of \$6,266,437 and \$9,404,886, respectively, for the year ended September 30, 2022, and \$12,686,750 and \$465,278, respectively, for the year ended September 30, 2021.

(7) Security Deposits

Pursuant to 4 CMC § 8143, as amended by Public Law 16-17, CUC shall collect a one-month security deposit per residential customer account. Such deposits shall be placed in an interest-bearing trust fund and shall not be used for any other purpose. A summary of security deposits including accrued interest as of September 30, 2022 and 2021 is as follows:

	2022	2021
Electric	\$ 10,835,427	10,923,230
Water	618,974	566,118
Sewer	273,323	235,666
Total security deposits	11,727,724	11,725,014
Accrued interest on security deposits	603,319	601,342
Security deposits, including interest	\$ 12,331,043	12,326,356

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(8) Capital Assets

Included in utility plant in service adjustments/transfers for the fiscal years ended September 30, 2022 and 2021 are completed projects transferred from construction work-in-progress to utility plant in service of \$2,426,739 and \$2,720,172, respectively.

CUC entered several construction contracts during the fiscal year 2022 for improvements, rehabilitation, and replacement of facilities and other capital projects. As of September 30, 2022 and 2021, CUC had outstanding construction contracts totaling \$11,085,463 and \$10,621,547, respectively, that will be financed from operating funds and federal awards.

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(8) Capital Assets, continued

A summary of the changes in capital assets for the years ended September 30, 2022 and 2021 are as follow:

	Useful Lives	2022			Adjustments or Transfers	September 30, 2022
		October 1, 2021	Additions	Disposals		
Non-depreciable capital assets:						
Construction in progress		\$ 15,650,964	\$ 12,351,435	\$ -	\$ (2,652,800)	\$ 25,349,599
Total non-depreciable capital assets		15,650,964	12,351,435	-	(2,652,800)	25,349,599
Depreciable capital assets:						
Utility plant in service:						
Electric plant	25 years	180,321,876	-	100,326	-	180,221,550
Water plant	25 years	88,906,700	941,675	1,079,642	-	88,768,733
Sewer plant	25 years	56,459,596	2,051,564	59,074	-	58,452,086
Administrative equipment	3-5 years	4,367,733	115,430	344,426	-	4,138,737
		330,055,905	3,108,669	1,583,468	-	331,581,106
Accumulated depreciation		(225,558,463)	(9,644,372)	(1,009,617)	-	(234,193,218)
Total depreciable capital assets		104,497,442	(6,535,703)	573,851	-	97,387,888
Right-to-use leased assets:						
Land	40 years	360,408	-	-	-	360,408
Accumulated amortization		(3,003)	(9,010)	-	-	(12,013)
		357,405	(9,010)	-	-	348,395
Total capital assets, net		<u>\$ 120,505,811</u>	<u>\$ 5,806,722</u>	<u>\$ 573,851</u>	<u>\$ (2,652,800)</u>	<u>\$ 123,085,882</u>

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(8) Capital Assets, continued

	Useful Lives	2021				September 30, 2021
		October 1, 2020	Additions	Disposals	Adjustments or Transfers	
Non-depreciable capital assets:						
Construction in progress		\$ 7,022,431	\$ 11,658,858	\$ -	\$ (3,030,325)	\$ 15,650,964
Total non-depreciable capital assets		7,022,431	11,658,858	-	(3,030,325)	15,650,964
Depreciable capital assets:						
Utility plant in service:						
Electric plant	25 years	181,681,008	51,150	1,410,282	-	180,321,876
Water plant	25 years	85,703,444	3,264,708	91,550	30,098	88,906,700
Sewer plant	25 years	55,835,152	716,446	92,002	-	56,459,596
Administrative equipment	3-5 years	4,405,904	37,801	77,092	1,120	4,367,733
		327,625,508	4,070,105	1,670,926	31,218	330,055,905
Accumulated depreciation		(215,982,647)	(11,125,417)	(1,549,601)	-	(225,558,463)
Total depreciable capital assets		111,642,861	(7,055,312)	121,325	31,218	104,497,442
Right-to-use leased assets:						
Land	40 years	-	360,408	-	-	360,408
Accumulated amortization		-	(3,003)	-	-	(3,003)
		-	357,405	-	-	357,405
Total capital assets, net		<u>\$ 118,665,292</u>	<u>\$ 4,960,951</u>	<u>\$ 121,325</u>	<u>\$ (2,999,107)</u>	<u>\$ 120,505,811</u>

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(9) Related Party Transactions

Public Law 9-68, enacted on October 19, 1995, requires government agencies to pay the CNMI 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 CNMI Office of the Public Auditor (OPA) and the agency may agree, to fund the OPA. At September 30, 2022 and 2021, CUC recognized outstanding payables to the CNMI Government of \$10,068,583 and \$9,311,189, respectively, based on 1% of CUC's operations budget excluding fuel costs.

On September 26, 2011, the Appropriations and Budget Authority Act of 2012 (Public Law 17-55) was signed into law. Section 601 of Public Law 17-55 authorizes the CNMI Secretary of Finance to deduct the 1% due to the OPA from CUC from the monthly utility costs of the government. No application of payments was made as of September 30, 2022 and 2021.

In fiscal year 2018, a settlement was reached on CUC's outstanding balance on employer contributions owed to NMISF. Under the agreement, CUC agreed to a payment total of \$3,469,797 to be paid in \$50,000 monthly installments on the first of each month until the balance is paid in full. As of September 30, 2022 and 2021, CUC recorded retirement contributions payable of \$3,481,607 and \$3,467,452, respectively. No payment has been made as of September 30, 2022 and 2021 as CUC and NMISF have yet to execute a settlement agreement.

On November 12, 2019, CUC entered into an omnibus agreement with the Commonwealth Ports Authority (CPA) which gave CUC a permanent easement over water wells, water lines, sand filtration, a 20-million-gallon tank, and power poles and transmission lines to power the water wells, located on CPA property. CUC is responsible for maintenance of the permanent easement and for maintaining a continuous water supply to CPA. CUC recorded a special item to the omnibus agreement for the year ended September 30, 2019 for the additional water well lease expense of \$3,559,840. In addition, CUC recorded land rights of \$3,642,991 and reversed receivables from CPA of \$7,202,831 as of September 30, 2019. Further, CUC waived penalties and interest related to outstanding billings to CPA estimated at \$878,241.

## COMMONWEALTH UTILITIES CORPORATION

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#### (10) Preferred Stock Issued to CDA

On October 2, 2008, Public Law No. 16-17 of the Commonwealth Utilities Corporation Act of 2008 authorized CUC to issue shares of cumulative, non-convertible, non-transferable preferred stock valued at \$45,000,000 to CDA.

CUC and CDA may provide by written agreement, subject to the terms and conditions of a Memorandum of Agreement (MOA), such terms and conditions being incorporated herein by reference, for the following:

- 1) Guaranteed annual dividends fixed and payable as agreed;
- 2) Buy-back provisions;
- 3) Default provisions;
- 4) Preferred shareholder rights; and
- 5) Consistent with Commonwealth law, such other rights and remedies as are typically found in shareholder and stock purchase agreements.

On May 7, 2009 the MOA was signed by officials of CUC and CDA. The MOA was subsequently approved by CPUC. Pursuant to the terms of the MOA, the dividend payments for the first three years after issuance of the stock are to be amortized and interest free over a 15-year period. Although the preferred stock certificates have not been physically issued, CUC is of the opinion that CDA has constructive receipt of the preferred shares through the execution of the MOA.

On August 17, 2016, CUC entered into an agreement with CDA for the total amount of unpaid dividend payments owed to CDA and agreed to a dividend of \$4,320,000 for the year ended September 30, 2016. The agreement states that CUC will make quarterly dividend payments of \$270,000 beginning October 1, 2016, as required by the preferred stock agreement, which represents the full amount of the quarterly dividend due. Dividends payable as of September 30, 2022 and 2021 amounted to \$900,000 and \$1,080,000, respectively.

#### (12) Commitments and Contingencies

##### Commitments

###### *Capital Commitments*

At September 30, 2022, CUC had commitments of \$11.085 million for construction, purchases of inventory, and acquisition of property and equipment, all of which are expected to be incurred in 2023.

**COMMONWEALTH UTILITIES CORPORATION**

**(A Component of the CNMI Government)**

Notes to the Financial Statements

September 31, 2022 and 2021

(12) Commitments and Contingencies, continued

Commitments, continued

*Fuel Purchase Contract*

On May 8, 2020, CUC entered into a fuel supply contract with Mobil Oil Mariana Islands, Inc. The agreement is for four years with an option to extend for two years, renewable annually.

*Power Purchase Contract*

In fiscal year 2020, CUC entered into a power purchase commitment with Telesource CNMI Inc., which is the power service provider in the island of Tinian. The agreement is for two years beginning April 1, 2020.

*Omnibus Agreement*

As discussed in note 9 to the financial statements, CUC entered into an omnibus agreement with CPA for permanent easement rights. In accordance with Section 2 of the agreement, CUC will not charge CPA for water up to \$600,000 annually on an indefinite basis beginning November 1, 2019. CPA shall pay to CUC any and all amounts in excess of the offset as billed.

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to CUC but which will only be resolved when one or more future events occur or fail to occur. CUC's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment.

In assessing loss contingencies related to legal proceedings that are pending against CUC or unasserted claims that may result in such proceedings, CUC's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in CUC's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

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

Notes to the Financial Statements  
September 31, 2022 and 2021

(12) Commitments and Contingencies, continued

Commitments, continued

*Litigation and Potential Claims*

CUC is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its operations, including customer disputes.

No provision for any liability that may result upon resolution of these matters has been made in the accompanying financial statements; however, there are pending cases under litigation.

*Stipulated Orders*

The U.S. Environmental Protection Agency (EPA) brought suit against CUC and the CNMI Government alleging a failure to comply with various regulations and requirements related to the Safe Drinking Water Act (“SDWA”) and the Federal Water Pollution Control Act (“FWPCA”). To date there have been two primary stipulated orders entered as a result of this action.

Stipulated Order One (SO1) is intended to ensure that CUC’s wastewater and drinking water systems achieve compliance with the SDWA and the FWPCA. The major components of SO1 are:

1. The reformation of CUC’s management, finances and operations; and
2. The construction of wastewater infrastructure.

CUC is also required to take steps to comply with National Pollution Discharge Elimination System permits and compliance orders, comply with drinking water standards, and to eliminate spills from the wastewater system.

Stipulated Order Two (SO2) is intended to ensure that CUC’s power plant facilities achieve compliance with the Clean Water Act (CWA). These requirements include requiring CUC to eliminate oil spills, implement appropriate spill prevention measures, implement effective inspection procedures for its oil storage facilities, provide containment for oil storage facilities and prepare appropriate operating plans.

**COMMONWEALTH UTILITIES CORPORATION**

**(A Component of the CNMI Government)**

Notes to the Financial Statements

September 31, 2022 and 2021

(12) Commitments and Contingencies, continued

Commitments, continued

*Stipulated Orders, continued*

The SO<sub>2</sub> projects continue under the direction of CUC Technical Manager for Oil, with oversight from US EPA designated contact, pursuant to the provisions of the Stipulated Order entered on September 26, 2014. Large infrastructure projects outlined in the SO have been completed, in cooperation with the Court's appointed Engineering and Environmental Management Company (EEMC) – Gilbane Federal. There are continuing obligations to fund the TMO accounts as a maintenance reserve for SO<sub>2</sub> funded improvements to include berm construction, integrity testing, BECQ permit renewals, spill response training, spill response equipment, etc.

*Cumulative Questioned Costs*

CUC participates in several 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. There are no cumulative questioned costs in CUC's Single Audit Report for the year ended September 30, 2022.

(13) Environmental Remediation Liability

U.S. Environmental Protection Agency

On March 10, 2011, CUC received an order from the U.S. EPA requiring CUC to perform cleanup activities of Power Plants 1 and 2 pursuant to the National Oil and Hazardous Substances Pollution Contingency Plan, which appears in Title 40, CFR Part 300 and paragraphs 12 and 14 of SO<sub>2</sub> for Preliminary Injunctive Relief.

On October 27, 2011, EPA contacted CUC regarding release or threatened release of hazardous substance connected with the Rota Power Plant located in Songsong Village, Rota (the Site). As a current owner and operator of the Rota Power Plant, EPA believes that CUC may be liable pursuant to Section 107(a) of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), as amended, 42 U.S.C. 9607(a), for response costs incurred to address environmental contamination at the Site. By letter dated November 3, 2011, CUC indicated that it lacked the financial ability to perform an immediate cleanup of hazardous substances and requested EPA's assistance in performing such a cleanup. EPA has incurred at least \$2,131,697 in costs related to the Site as of January 31, 2016.

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

Notes to the Financial Statements  
September 31, 2022 and 2021

(13) Environmental Remediation Liability, continued

U.S. Environmental Protection Agency

A settlement agreement was also entered between CUC and the U.S. EPA pursuant to CERCLA section 122(h)(1) for recovery of past response costs of \$315,000 plus 3% interest. CUC will pay in 48 installments starting August 15, 2021.

U.S. Coast Guard

On April 26, 2017, CUC received an assessment to reimburse the United States Coast Guard (USCG) for the costs incurred for oil discharge pollution removal at CUC Power Plants 1 and 2 totaling \$7,809,537. In fiscal year 2020, CUC and USCG agreed to enter into a settlement agreement pursuant to Section 1015 of the Oil Pollution Act of 1990. CUC agreed to pay USCG the principal sum of \$1,185,000 in forty-eight monthly installments of \$24,688 plus 3% annual interest.

Future principal payments for the environmental remediation liability are as follows:

Year ending September 30,

2023	\$ 375,000
2024	375,000
2025	<u>312,500</u>
	<u><u>1,062,500</u></u>

(14) Economic Dependency

CUC is dependent on various equipment manufacturers, distributors, and dealers for the supply of parts for the utility plants and suppliers of fuel and lube. CUC is dependent on the ability of its suppliers to provide products on a timely basis and on favorable pricing terms. The loss of certain principal suppliers or a significant reduction in product availability from principal suppliers could have a material adverse effect on CUC. CUC believes that its relationships with its suppliers are satisfactory and has not experienced any significant delays due to its major suppliers.

(15) Leases

CUC had a ground lease agreement that began in June 2021 with a payment scheme of:

- \$1,438 per month for the first 8 years
- \$1,546 per month for the next 8 years
- \$1,654 per month for the next 8 years
- \$1,761 per month for the next 8 years
- \$1,869 per month for the last 8 years

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

Notes to the Financial Statements  
September 31, 2022 and 2021

(15) Leases, continued

There was no implicit rate in the lease agreement. A discount rate of 4.36% was used based on a 10-year treasury bond rate in April 2024.

The summary of future cash payments and reconciliation of cash payments to the principal is summarized below:

<u>September 30:</u>	<u>Payments</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 17,258	\$ 1,731	\$ 15,527
2024	17,258	1,808	15,450
2025	17,258	1,888	15,370
2026	17,258	1,972	15,286
2027	17,258	2,060	15,198
2028 - 2032	90,597	16,387	74,210
2033 - 2037	93,182	23,381	69,801
2038 - 2042	99,212	35,837	63,375
2043 - 2047	102,227	47,717	54,510
2048 - 2052	103,911	62,180	41,731
2053 - 2057	113,035	86,079	26,956
2058 - 2062	82,232	75,870	6,362
	<u>\$ 770,686</u>	<u>\$ 356,910</u>	<u>\$ 413,776</u>

CUC had several lease contracts in which CUC has unilateral power to cancel the lease at any time of their choosing with an advance written notice. CUC has expressed that they are in the process of terminating the contract as soon as a suitable replacement is attained. These leases were not considered to be part of the GASB Statement No. 87 computation. There were no short-term leases, excluding leases with one month or less lease terms, for the years ended September 30, 2022 and 2021.

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

Notes to the Financial Statements  
September 31, 2022 and 2021

(15) Leases, continued

Information related to right-of-use assets and lease liabilities follows:

	<u>2022</u>	<u>2021</u>
Right-to-use asset	\$ 348,395	357,405
Lease liabilities, current	\$ 1,731	1,657
Lease liabilities, non-current	355,179	356,910
Lease liabilities	\$ 356,910	358,567

The following summarizes lease expenses for the years ended September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest expense	\$ 15,595	5,214
Amortization expense	9,010	3,003
Expenses related to the lease	\$ 24,605	8,217

Supplemental information related to the Company's leases follows:

	<u>2022</u>	<u>2021</u>
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating lease	\$ 17,258	5,753
Weighted average remaining lease terms	39 years	40 years
Weighted average discount rate	4.36%	4.36%

(16) Reclassification

Certain reclassifications have been made to 2021 financial statements to conform to the current year financial statement presentation. These reclassifications had no effect on previously reported net earnings.

**COMMONWEALTH UTILITIES CORPORATION**

**(A Component of the CNMI Government)**

Notes to the Financial Statements

September 31, 2022 and 2021

(17) Restatement

The financial statements as of and for the year ended September 30, 2021 have been restated to reflect the adoption of GASB Statement No. 87 *Leases*. Adoption is elaborated in Note 2, while changes in the figures are reflected in Notes 8 and 15.

The adoption of GASB Statement No. 87 *Leases* impacted the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows.

(18) COVID-19 Pandemic

On January 30, 2020, the International Health Regulations Emergency Committee of the World Health Organization declared the 2019-nCoV (Coronavirus) outbreak a “Public Health Emergency of International Concern”. On May 5, 2023 the World Health Organization declared that the public health emergency had ended. There are lingering aspects of the pandemic that are affecting businesses in CNMI, primarily related to the tourism industry. It is anticipated that these impacts will continue for some time. As a result of the spread of the coronavirus pandemic, economic uncertainties have arisen, which are likely to impact the day-to-day administration of CUC. While this matter is expected to negatively impact the Company’s results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.

(19) Date of Management’s Review

Management has evaluated subsequent events and transactions occurring after the balance sheet date through the date of availability of the financial statements to be issued, June 26, 2024. The Company has determined that none of the events occurring after the date of the balance sheet substantially affects the amounts, presentation, and disclosure of the accompanying financial statements.

**COMMONWEALTH UTILITIES CORPORATION**

**(A Component of the CNMI Government)**

Schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis

For the Year Ended September 30, 2022

	Power	Water	Sewer	Administrative and General	Elimination	Total
Operating revenues:						
Government	\$ 7,115,942	3,686,389	2,066,837	-	(1,927,084)	10,942,084
Commercial	12,951,683	2,480,766	1,059,576	-	-	16,492,025
Residential	6,694,431	6,588,758	835,239	-	-	14,118,428
	<u>26,762,056</u>	<u>12,755,913</u>	<u>3,961,652</u>	-	<u>(1,927,084)</u>	<u>41,552,537</u>
Fuel adjustment charge	74,279,723	-	-	-	(2,237,412)	72,042,311
Other revenue	598,997	99,814	43,068	-	-	741,879
	<u>101,640,776</u>	<u>12,855,727</u>	<u>4,004,720</u>	-	<u>(4,164,496)</u>	<u>114,336,727</u>
Bad debts	(5,523,173)	(3,055,023)	(1,935,658)	-	-	(10,513,854)
Net operating revenues	<u>96,117,603</u>	<u>9,800,704</u>	<u>2,069,062</u>	-	<u>(4,164,496)</u>	<u>103,822,873</u>
Operating expenses:						
Fuel, lube and taxes	68,778,842	-	-	-	-	68,778,842
General and administrative	3,925,109	3,524,553	522,049	14,496,824	-	22,468,535
Maintenance	10,575,283	1,679,582	545,755	1,401,563	-	14,202,183
Depreciation	4,979,610	2,273,843	2,195,557	195,361	-	9,644,371
Utility consumption	1,057,474	4,757,831	1,148,590	4,515	(4,164,496)	2,803,914
Miscellaneous expense	-	-	-	1,387,442	-	1,387,442
Supplies	250,130	128,771	82,594	345,158	-	806,653
Amortization	9,010	-	-	-	-	9,010
Total operating expenses	<u>89,575,458</u>	<u>12,364,580</u>	<u>4,494,545</u>	<u>17,830,863</u>	<u>(4,164,496)</u>	<u>120,100,950</u>
Operating income (loss) before allocation of common costs	6,542,145	(2,563,876)	(2,425,483)	(17,830,863)	-	(16,278,077)
Allocation of common costs	<u>(15,870,928)</u>	<u>(1,618,291)</u>	<u>(341,643)</u>	<u>17,830,863</u>	-	-
Operating loss, rolled forward	<u>(9,328,783)</u>	<u>(4,182,167)</u>	<u>(2,767,126)</u>	-	-	<u>(16,278,077)</u>

See accompanying independent auditor's report and notes to financial statements.

**COMMONWEALTH UTILITIES CORPORATION**

**(A Component of the CNMI Government)**

Schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis

For the Years Ended September 30, 2022

	<u>Power</u>	<u>Water</u>	<u>Sewer</u>	<u>Administrative and General</u>	<u>Elimination</u>	<u>Total</u>
Operating loss, carried forward	(9,328,783)	(4,182,167)	(2,767,126)	-	-	(16,278,077)
Non-operating revenues (expenses):						
Interest income and late charges	2,410,761	1,355,124	1,041,389	6,249	-	4,813,523
Miscellaneous income	224,278	6,688	37,425	370,247	-	638,638
Recovery of bad debts	-	-	-	-	-	-
Interest expense	(15,595)	-	-	-	-	(15,595)
Settlement	(34,454)	(245,750)	-	(226,310)	-	(506,514)
Contributions to primary government	(599,529)	(53,614)	(16,064)	(88,188)	-	(757,395)
Dividends	(900,000)	-	-	-	-	(900,000)
Change in deferred fuel cost	(5,510,393)	-	-	-	-	(5,510,393)
Total non-operating revenues (expenses)	(4,424,932)	1,062,448	1,062,750	61,998	-	(2,237,736)
Income before capital contributions from primary government and other items	(13,753,715)	(3,119,719)	(1,704,376)	61,998	-	(18,515,813)
Capital contributions from primary government	1,199,754	4,112,004	2,932,556	7,610,892	-	15,855,206
Change in net position	<u>\$ (12,553,961)</u>	<u>992,285</u>	<u>1,228,180</u>	<u>7,672,890</u>	<u>-</u>	<u>(2,660,607)</u>

See accompanying independent auditor's report and notes to financial statements.

**COMMONWEALTH UTILITIES CORPORATION**

**(A Component of the CNMI Government)**

Schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis

For the Year Ended September 30, 2021 (Restated)

	Power	Water	Sewer	Administrative and General	Elimination	Total
Operating revenues:						
Government	\$ 4,626,078	2,839,261	1,970,318	-	(1,927,084)	7,508,573
Commercial	12,008,903	2,540,547	1,015,333	-	-	15,564,783
Residential	6,331,445	5,625,169	677,496	-	-	12,634,110
	<u>22,966,426</u>	<u>11,004,977</u>	<u>3,663,147</u>	<u>-</u>	<u>(1,927,084)</u>	<u>35,707,466</u>
Fuel adjustment charge	38,507,298	-	-	-	(2,237,412)	36,269,886
Other revenue	574,400	85,296	20,751	-	-	680,447
	<u>62,048,124</u>	<u>11,090,273</u>	<u>3,683,898</u>	<u>-</u>	<u>(4,164,496)</u>	<u>72,657,799</u>
Bad debts	(2,044,443)	(1,485,414)	(548,515)	-	-	(4,078,372)
Net operating revenues	<u>60,003,681</u>	<u>9,604,859</u>	<u>3,135,383</u>	<u>-</u>	<u>(4,164,496)</u>	<u>68,579,427</u>
Operating expenses:						
Fuel, lube and taxes	37,918,469	-	-	-	-	37,918,469
General and administrative	3,037,894	2,778,453	331,757	11,494,647	-	17,642,751
Maintenance	12,492,062	1,063,595	256,744	346,626	-	14,159,027
Depreciation	6,478,169	2,275,578	2,096,928	274,743	-	11,125,418
Miscellaneous expense	-	-	-	945,477	-	945,477
Utility consumption	1,120,796	3,068,151	760,460	6,814	(4,164,496)	791,725
Supplies	122,582	276,440	56,548	229,363	-	684,933
Amortization	3,003	-	-	-	-	3,003
Total operating expenses	<u>61,172,975</u>	<u>9,462,217</u>	<u>3,502,437</u>	<u>13,297,670</u>	<u>(4,164,496)</u>	<u>83,270,803</u>
Operating income (loss) before allocation of common costs	<u>(1,169,294)</u>	<u>142,642</u>	<u>(367,054)</u>	<u>(13,297,670)</u>	<u>-</u>	<u>(14,691,376)</u>
Allocation of common costs	<u>(10,653,679)</u>	<u>(1,981,075)</u>	<u>(668,271)</u>	<u>13,303,025</u>	<u>-</u>	<u>-</u>
Operating income (loss), rolled forward	<u>(11,822,973)</u>	<u>(1,838,433)</u>	<u>(1,035,325)</u>	<u>5,355</u>	<u>-</u>	<u>(14,691,376)</u>

See accompanying independent auditor's report and notes to financial statements.

**COMMONWEALTH UTILITIES CORPORATION**

**(A Component of the CNMI Government)**

Schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis

For the Years Ended September 30, 2022

	<u>Power</u>	<u>Water</u>	<u>Sewer</u>	<u>Administrative and General</u>	<u>Elimination</u>	<u>Total</u>
Operating income (loss), carried forward	(11,822,973)	(1,838,433)	(1,035,325)	5,355	-	(14,691,376)
Non-operating revenues (expenses):						
Recovery of bad debts	5,807,693	2,997,024	712,528	-	-	9,517,245
Settlement	8,433,812	(5,000)	-	-	-	8,428,812
Interest income and late charges	2,641,456	1,176,126	877,179	10,617	-	4,705,378
Miscellaneous income	7,620	16,942	32,030	70,846	-	127,438
Interest expense	(5,214)	-	-	-	-	(5,214)
Contributions to primary government	(297,682)	(72,346)	(31,427)	-	-	(401,455)
Change in deferred fuel cost	(588,829)	-	-	-	-	(588,829)
Dividends	(900,000)	-	-	-	-	(900,000)
Net non-operating revenues (expenses)	15,098,856	4,112,746	1,590,310	81,463	-	20,883,375
Income before capital contributions from primary government and other items	3,275,883	2,274,313	554,985	86,818	-	6,191,999
Capital contributions from primary government	1,282,938	7,366,423	5,433,526	-	-	14,082,887
Change in net position	<u>\$ 4,558,821</u>	<u>9,640,736</u>	<u>5,988,511</u>	<u>86,818</u>	<u>-</u>	<u>20,274,886</u>

See accompanying independent auditor's report and notes to financial statements.

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component Unit of the Commonwealth**  
**of the Northern Mariana Islands)**

Independent Auditor's Reports on  
Internal Control and on Compliance  
September 30, 2022  
(With Independent Auditor's Report Thereon)

**Burger • Comer & Associates**  
1930 Picarro Ln  
I Liyang Village  
Saipan, MP 96950



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Commonwealth Utilities Corporation

We have audited, 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, the financial statements of Commonwealth Utilities Corporation (CUC), a component unit of the Commonwealth of the Northern Mariana Islands, which comprise the statement of net position as of September 30, 2022 and 2021, and the related statements of revenues, expenses and changes in net position, and of cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 10, 2024.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered CUC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CUC's internal control. Accordingly, we do not express an opinion on the effectiveness of CUC's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2022-003 that we consider as a significant deficiency.

**Saipan Office**

Suite 203 MH II Building Marina Heights  
Business Park P.O. Box 504053, Saipan, MP 96950  
Tel Nos. (670) 235-8722 (670) 233-1837  
Fax Nos. (670) 235-6905 (670) 233-8214

**Guam Office**

333 South Marine Corps Drive  
Tamuning, Guam 96913  
Tel Nos. (671) 646-5044 (671) 472-2680  
Fax Nos. (671) 646-5045 (671) 472-2686

**Palau Office**

PO Box 1266  
Koror, PW 96940  
Tel Nos. (680) 488-8615  
Fax Nos. (680) 488-8616

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether CUC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001 to 2022-005.

## **CUC's Response to Findings**

CUC's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. CUC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bryce Conner & Associates*

Saipan, MP  
June 26, 2024



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors  
Commonwealth Utilities Corporation

**Report on Compliance for Each Major Federal Program**

We have audited Commonwealth Utilities Corporation's (CUC's) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of CUC's major federal programs for the year ended September 30, 2022. CUC's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of CUC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CUC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of CUC's compliance.

## **Basis for Qualified Opinion on ALN 21.027 and ALN 66.600**

As described in findings 2022-004 to 2022-005 in the accompanying Schedule of Findings and Questioned Costs, CUC did not comply with the requirements regarding the following:

<u>Finding Number</u>	<u>ALN</u>	<u>Program Name</u>	<u>Compliance Requirement</u>
2022-004	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Special Tests and Provisions – Administrative Conditions: MBE/WBE Reporting - Reporting Condition
2022-005	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Special Tests and Provisions – Programmatic Conditions: Quarterly Progress Reports

We believe compliance with the above program requirements is necessary for CUC.

## **Qualified Opinion on ALN 66.600**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, CUC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on ALN 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support for the year ended September 30, 2022.

## **Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, CUC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2022.

## **Report on Internal Control over Compliance**

The management of CUC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CUC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CUC's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as

discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2022-004 through 2022-005 as significant deficiencies.

CUC's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. CUC's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

CUC is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. CUC's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on it. The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of CUC as of and for the year ended September 30, 2022, and have issued our report thereon dated June 10, 2024, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Bryce Conner & Associates*

Saipan, MP  
June 26, 2024

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component of the CNMI Government)**  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2022

Federal Agency (Pass-Through Agency)	Federal Program	Assistance Listing Number	Other Award Number	Expenditures			Passed-Through to Subrecipient	Note
				From Pass- Through Awards	From Direct Awards	Total		
U. S. Department of the Treasury (CNMI Government)	Coronavirus State and Local Fiscal Recovery Funds	21.027	CNMI22002	408,174	-	408,174	-	
			CNMI22003	350,566	-	350,566	-	
			CNMI22005	1,266	-	1,266	-	
			CNMI22026	17,528	-	17,528	-	
				<u>7,607,676</u>	<u>-</u>	<u>7,607,676</u>	<u>-</u>	
			<b>Total US Department of the Interior</b>	<b>8,385,210</b>	<b>-</b>	<b>8,385,210</b>	<b>-</b>	
U. S. Environmental Protection Agency	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	66.600	M-00T33717	\$ -	\$ 1,767,878	\$ 1,767,878	\$ -	
			M-00T33719	-	1,864,678.00	1,864,678	-	
			M-00T33721	-	1,458,184.00	1,458,184	-	
			M-98T07701	-	416,882	416,882	-	
				<u>-</u>	<u>416,882</u>	<u>416,882</u>	<u>-</u>	
			<b>Total US Environmental Protection Agency</b>	<b>-</b>	<b>5,507,622</b>	<b>5,507,622</b>	<b>-</b>	
U. S. Department of the Interior (CNMI Government)	Economic, Social, and Political Development of the Territories	15.875	CNMI-CIP-2017-11	359,750	-	359,750	-	
			CNMI-CIP-2019-4	700	-	700	-	
			CNMI-CIP-2021-6	378,000	-	378,000	-	
			CNMI-CIP-2021-7	120,000	-	120,000	-	
			CNMI-EIC-2018-3	-	445,924	445,924	-	
				<u>-</u>	<u>445,924</u>	<u>445,924</u>	<u>-</u>	
			<b>Total US Department of the Interior</b>	<b>858,450</b>	<b>445,924</b>	<b>1,304,374</b>	<b>-</b>	

(continued)

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component of the CNMI Government)**  
Schedule of Expenditures of Federal Awards, continued  
For the Year Ended September 30, 2022

Federal Agency (Pass-Through Agency)	Federal Program	Assistance Listing Number	Other Award Number	Expenditures			Passed-Through to Subrecipient	Note
				From Pass- Through Awards	From Direct Awards	Total		
U. S. Department of Commerce and Economic Development Cluster	Investments for Public Works and Economic Development Facilities	11.300	07-01-07128	-	310,091	310,091	-	3
	Economic Adjustment Assistance	11.307	07-79-07506	-	2,800	2,800	-	3
	<b>Total US Department of Commerce and Economic Development Cluster</b>				<b>-</b>	<b>312,891</b>	<b>312,891</b>	<b>-</b>
U. S. Department of Defense (CNMI Government)	Community Investment	12.600	HQ00052010078	146,111	-	146,111	-	
	<b>Total US Department of Defense</b>				<b>146,111</b>	<b>-</b>	<b>146,111</b>	<b>-</b>
Federal Emergency Management Administration/Homeland Security (CNM Public Assistance Office)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		15,115	-	15,115	-	
	<b>Total Federal Emergency Management Administration/Homeland Security</b>				<b>15,115</b>	<b>-</b>	<b>15,115</b>	<b>-</b>
<b>Total Expenditures of Federal Awards</b>				<b>\$ 9,404,886</b>	<b>\$ 6,266,437</b>	<b>\$ 15,671,323</b>	<b>\$ -</b>	

See accompanying notes to the schedule of expenditure of federal awards.

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component of the CNMI Government)**  
Notes to the Schedule of Expenditure of Federal Awards  
September 31, 2022

(1) Scope of Audit

The Commonwealth Utilities Corporation (CUC) is a component unit of the Commonwealth of the Northern Mariana Islands (CNMI) Government and was established as a public corporation by CNMI Public Law 4-47, as amended and has the powers of a body corporate, as defined in the act and local statutes. Only the transactions of CUC are included within the scope of the Single Audit.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of CUC under programs of the federal government for the year ended September 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of CUC, it is not intended to and does not present the financial position, changes in net position or cash flows of CUC.

(3) Summary of Significant Accounting Policies

Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting, consistent with the manner in which CUC maintains its accounting records. All expenses and capital outlays are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. CUC recognizes contributions from the federal government when qualifying expenditures are incurred.

Indirect Costs

CUC does not have an indirect cost negotiation agreement and does not elect to use the de-minimis indirect cost rate allowed under the Uniform Guidance.

Matching Costs

The 20 percent non-federal share of ALN 11.300 is not included in the accompanying Schedule of Expenditures of Federal Awards.

The 25 percent non-federal share of ALN 11.307 is not included in the accompanying Schedule of Expenditures of Federal Awards.

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component of the CNMI Government)**  
 Schedule of Findings and Questioned Costs  
 September 31, 2022

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

Financial Statements

Type of auditor’s report issued: Unmodified

Internal Control over Financial Reporting:

- Were material weakness(es) identified? \_\_\_ Yes \_x\_ No
  
- Were significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_ Yes \_x\_ None Reported

Non-compliance material to financial statements noted? \_\_\_ Yes \_x\_ No

Federal Awards

Internal Control over Major Federal Programs:

- Material weakness(es) identified? \_\_\_ Yes \_x\_ No
  
- Were significant deficiency(ies) identified that are not considered to be material weaknesses? \_x\_ Yes \_\_\_ None Reported

Type of auditors’ report issued on compliance for Major Federal Program:

- 21.027 Coronavirus State and Local Fiscal Recovery Funds Unmodified
- 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support Qualified
- 15.875 Economic, Social, and Political Development of the Territories Unmodified

Are there any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_x\_ Yes \_\_\_ No

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component of the CNMI Government)**  
Schedule of Findings and Questioned Costs  
September 31, 2022

**SECTION I – SUMMARY OF AUDITOR’S RESULT, continued**

Federal Awards

Identification of Major Programs

<u>AL No.</u>	<u>Description</u>	<u>Federal Expenditures</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds	\$ 8,385,210
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	5,507,662
15.875	Economic, Social, and Political Development of the Territories	<u>1,304,374</u>
	Total Major Program Expenditures	<u>\$ 15,197,246</u>
	Total Federal Expenditures	<u>\$ 15,671,323</u>
	Percentage of Federal Expenditures tested as Major Programs	<u>97%</u>
	Dollar threshold used to distinguish between Type A and Type B Programs:	\$750,000
	Did the auditee qualify as low-risk?	<u>   </u> Yes <u>  x  </u> No

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component of the CNMI Government)**  
Schedule of Findings and Questioned Costs  
September 31, 2022

**SECTION II – FINANCIAL STATEMENTS FINDINGS**

**Finding No. 2022-001**

Area:	Travel
Repeat Finding from Prior Audit?	No
Finding Type:	Deficiency in Internal Control

Criteria:

Traveling across islands and abroad is necessary to fulfill CUC's operations. The Corporation has a set of policies and procedures to follow and documentation to be accomplished before and after traveling, such as the traveler must submit a signed Trip Report of the travel within 15 days after the travel.

Condition:

For 1 or 6% of the 17 travels tested, the Trip Report was submitted more than 15 days after the travel ended.

Travel Number  
22-049

Cause:

Adherence to established policies and procedures regarding preparing, signature, and submitting the travel voucher and Trip Report is lacking.

Effect:

CUC did not comply with its travel policies and procedures.

Recommendation:

CUC should reinforce its travel policies and procedures and more closely monitor and review travel documents to ensure compliance.

Views of the Officials:

CUC's response is documented in the corrective action plan.

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component of the CNMI Government)**  
 Schedule of Findings and Questioned Costs  
 September 31, 2022

**SECTION II – FINANCIAL STATEMENTS FINDINGS, continued**

**Finding No. 2022-002**

Area: Procurement  
 Repeat Finding from Prior Audit? No  
 Finding Type: Deficiency in Internal Control

Criteria:

CUC procures contracts for goods and services from various vendors to fulfill its operational duties. Some of the policies and procedures that govern the procurement of CUC are:

- a. CUC must make the project bidding known to the public for a period of 30 calendar days with weekly posting in the newspaper.
- b. CUC must provide 30 calendar days for the bidding period.

Condition:

- a. For 2 or 7% of the 29 procurement contracts tested, an adequate time of 30 calendar days for public notice was not observed.

<u>Contract Number</u>	<u>Days of Public Notice</u>
CUC-WW-22-C025	27
CUC-PD-22-C033	24

- b. For 2 or 7% of the 29 procurement contracts tested, bidding period was less than 30 days.

<u>Contract Number</u>	<u>Contract Number</u>
CUC-WW-22-C025	CUC-PD-22-C033

Cause:

Adherence to established policies and procedures regarding procurement is lacking.

Effect:

CUC is not in compliance with its procurement policies and procedures.

Recommendation:

CUC should reinforce its procurement policies and procedures to ensure compliance.

Views of the Officials:

CUC’s response is documented in the corrective action plan.

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component of the CNMI Government)**  
Schedule of Findings and Questioned Costs  
September 31, 2022

**SECTION II – FINANCIAL STATEMENTS FINDINGS, continued**

**Finding No. 2022-003**

Area: Human Resources  
Repeat Finding from Prior Audit? No  
Finding Type: Significant Deficiency in Internal Control

Criteria:

A signed employment contract must be accomplished before an employee starts his/her duty.

Condition:

For the 2 or 2% of 92 personnel records tested in 4 pay periods, the employment contract that was in effect during the pay period was not provided.

<u>Employee Number</u>	<u>Pay Period</u>	<u>Pay Date</u>
4	09/26/2021 - 10/09/2021	10/22/2021
4	12/05/2021 - 12/18/2021	12/31/2021

Cause:

CUC did not adhere to policies and procedures for maintaining Human Resources files.

Effect:

CUC is not in compliance with its regulations, and payroll expenses could be misstated. Potential fraud could exist and not be detected.

Recommendation:

CUC should ensure that all employees have valid contracts and that the Human Resources Department maintains and updates the files periodically.

Views of the Officials:

CUC's response is documented in the corrective action plan.

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component of the CNMI Government)**  
Schedule of Findings and Questioned Costs  
September 31, 2022

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding No. 2022-004**

Federal Agency:	U. S. Environmental Protection Agency
AL No.:	66.600
Program Title:	Environmental Protection Consolidated Grants for the Insular Areas - Program Support
Area:	Special Tests and Provisions – Administrative Conditions: MBE/WBE Reporting - Reporting Condition
Repeat Finding from Prior Audit?	No
Questioned Cost:	\$0.00

**Criteria:**

As per the Administrative Conditions of the grant notification from the US EPA, CUC must submit EPA Form 5700-52A by October 30 of the same year.

**Condition:**

The EPA Form 5700-52A was submitted after October 30, 2022.

**Cause:**

The EPA Form 5700-52A MBE/WBE Report was submitted on a later date.

**Effect:**

CUC submitted the EPA Form 5700-52A late and is not complying with grant requirements.

**Recommendation:**

CUC should discuss the monitoring efforts for preparing EPA Form 5700-52A.

**Views of the Officials:**

CUC's response is documented in the corrective action plan.

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component of the CNMI Government)**  
Schedule of Findings and Questioned Costs  
September 31, 2022

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, continued**

**Finding No. 2022-005**

Federal Agency:	U. S. Environmental Protection Agency
AL No.:	66.600
Program Title:	Environmental Protection Consolidated Grants for the Insular Areas - Program Support
Area:	Special Tests and Provisions – Programmatic Conditions: Quarterly Progress Reports
Repeat Finding from Prior Audit?	No
Questioned Cost:	\$0.00

**Criteria:**

As per the Programmatic Conditions of the grant notification from the US EPA, CUC must submit quarterly project performance and progress reports to the EPA Project Officer beginning three months after the agreement's initiation. The reports must include brief information for each individual project covered under this grant and are due fifteen (15) days following the end of the quarter.

**Condition:**

For quarters 1, 2, and 4, the quarterly project performance and progress reports were submitted after the 15-day deadline. For quarter 3, the quarterly project performance and progress report were not submitted.

**Cause:**

There is a lack of monitoring procedures to ensure the timely submission of quarterly project performance and progress reports.

**Effect:**

CUC is not complying with grant requirements.

**Recommendation:**

CUC should establish a monitoring procedure such as a checklist or personnel that will review submissions of reports.

**Views of the Officials:**

CUC's response is documented in the corrective action plan.

**COMMONWEALTH UTILITIES CORPORATION**  
**(A Component of the CNMI Government)**  
Schedule of Findings and Questioned Costs  
September 31, 2022

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

Prior Year Findings

<u>No.</u>	<u>Subject Matter</u>	<u>Status</u>	<u>Current Year No.</u>	<u>Questioned Costs</u>
2021-001	Special Tests and Provisions – Administrative Conditions: Annual Federal Financial Reporting	Resolved	-	\$0.00
2020-002	Capital Assets	Resolved	-	\$0.00
2019-002	Inventory	Resolved	-	\$0.00
2019-003	Capital Assets	Resolved	-	\$0.00

Questioned Costs

The prior year's Single Audit report on compliance with the laws and regulations noted the following costs and comments that were unresolved on September 30, 2022:

Questioned costs, as previously reported	\$ -
Questioned costs for fiscal year 2022 Single Audit	<u>-</u>
Unresolved questions cost on September 30, 2022	<u><u>\$ -</u></u>



# Commonwealth Utilities Corporation Office of the Executive Director



June 26, 2024

Mr. David Burger, Partner  
Burger Comer Magliari  
P.O. Box 504053  
Saipan, MP 96950

Subject: Schedule of Findings and Questioned Costs for the year ending September 30, 2022

Dear Mr. Burger:

Please see below for CUC's responses to the findings regarding CUC FY 2021-2022 Audit:

## **Finding No. 2022-001**

### *Condition:*

For 1 or 6% of the 17 travels tested, the Trip Report was submitted more than 15 days after the travel ended.

Travel Number  
22-049

### *Recommendation:*

CUC should reinforce its travel policies and procedures and more closely monitor and review travel documents to ensure compliance.

### *CUC Response:*

CUC accepts the finding.

### *Management's Corrective Action Plan:*

CUC acknowledges the finding and continues to resolve these and similar travel-related issues by working closely with relevant department heads, particularly, on travel policies regarding trip reports being submitted no more than 15 days following the return of CUC employees.



# Commonwealth Utilities Corporation Office of the Executive Director



## **Finding No. 2022-002**

### *Condition:*

- a. For 2 or 7% of the 29 procurement contracts tested, an adequate time of 30 calendar days for public notice was not observed.

<b>Contract Number</b>	<b>Days of Public Notice</b>
CUC-WW-22-C025	27
CUC-PD-22-C033	24

- b. For 2 or 7% of the 29 procurement contracts tested, the bidding period was less than 30 days.

<b>Contract Number</b>
CUC-WW-22-C025
CUC-PD-22-C033

### *Recommendation:*

CUC should reinforce its procurement policies and procedures to ensure compliance.

### *CUC Response:*

CUC accepts the finding.

### *Management's Corrective Action Plan:*

CUC Procurement Division will ensure all CUC Competitive Bid Solicitation Notices (IFB, RFP, RAESP-Macro Purchases) are advertised via: Print and Electronic Media no less than 30 calendar days via double cross checking duration period before commencement of advertisement.

CUC Procurement Division may opt to increase the advertisement period from the minimum 30 calendar days to 35 calendar days.



# Commonwealth Utilities Corporation Office of the Executive Director



## **Finding No. 2022-003**

### *Condition:*

For the 2 or 2% of 92 personnel records tested in 4 pay periods, the employment contract that was in effect during the pay period was not provided.

<b>Employee Number</b>	<b>Pay Period</b>	<b>Pay Date</b>
4	09/26/2021 - 10/09/2021	10/22/2021
4	12/05/2021 - 12/18/2021	12/31/2021

### *Recommendation:*

CUC should ensure that all employees have valid contracts and that the Human Resources Department maintains and updates the files periodically.

### *CUC Response:*

CUC agrees with the finding.

### *Management's Corrective Action Plan:*

The Human Resources department has reviewed all current employee files and will continue to review files quarterly to ensure continued compliance with our policy and procedures in maintaining Human Resources files.

## **Finding No. 2022-004**

### *Condition:*

The EPA Form 5700-52A was submitted after October 30, 2022.

### *Recommendation:*

CUC should discuss the monitoring efforts for preparing EPA Form 5700-52A.

### *CUC Response:*

CUC concurs. EPA Form 5700-22A MBE/WBE Report was subsequently submitted and received by EPA.

### *Management's Corrective Action Plan:*

CUC has assigned personnel to monitor various projects and work with Grants Administrator to ensure that reports are prepared and submitted in a timely manner.



# Commonwealth Utilities Corporation Office of the Executive Director



## **Finding No. 2022-005**

### *Condition:*

For quarters 1, 2, and 4, the quarterly project performance and progress reports were submitted after the 15-day deadline. For quarter 3, the quarterly project performance and progress report were not submitted.

### *Recommendation:*

CUC should establish a monitoring procedure such as a checklist or personnel that will review submissions of reports.

### *CUC Response:*

CUC agrees with the finding.

### *Management's Corrective Action Plan:*

CUC has assigned personnel to monitor timely submission of reports. Furthermore, EPA confirmed that CUC may submit the quarterly reports within 30 days after the end of each quarter

Sincerely,

Rodolfo Urbano  
Acting Chief Financial Officer