

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, 2023 and 2022

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, 2023 and 2022
(With Independent Auditor's Report Thereon)

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Years ended September 30, 2023 and 2022

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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, 2023 and 2022, 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 net position of CUC as of September 30, 2023 and 2022, and the respective statements of revenues, expenses, and changes in net position and, where applicable, cash flows thereof for the years 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.

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.

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.

Burgin Comer & Associates

Saipan, MP
October 7, 2025

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Management's Discussion and Analysis
September 30, 2023 and 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, 2023 with comparisons to the prior fiscal year ended September 30, 2022. We encourage readers to consider the information presented here in conjunction with the financial statements, related notes and supplementary information (pages 15 through 57).

	2023	2022	\$ Change	% Change
Assets and Deferred Outflows of Resources				
Current unrestricted assets	\$ 93,253,591	\$ 98,282,137	\$ (5,028,546)	-5.1%
Current restricted assets	12,602,076	13,316,025	(713,949)	-5.4%
Noncurrent assets	124,635,813	123,085,882	1,549,931	1.3%
Deferred outflows of resources	<u>-</u>	<u>1,242,434</u>	<u>(1,242,434)</u>	-100.0%
	<u>\$ 230,491,480</u>	<u>\$ 235,926,478</u>	<u>\$ (5,434,998)</u>	-2.3%
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities	\$ 44,635,991	\$ 39,783,298	\$ 4,852,693	12.2%
Noncurrent liabilities	18,685,585	17,998,483	687,102	3.8%
Deferred inflows of resources	2,960,621	-	2,960,621	N/A
Net investment in capital assets	124,635,813	123,085,882	1,549,931	1.3%
Restricted	45,000,000	45,000,000	-	0.0%
Unrestricted	<u>(5,426,530)</u>	<u>10,058,815</u>	<u>(15,485,345)</u>	-153.9%
	<u>\$ 230,491,480</u>	<u>\$ 235,926,478</u>	<u>\$ (5,434,998)</u>	-2.3%
Revenues, Expenses and Changes in Net Position				
	2023	2022	\$ Change	% Change
Net operating revenues	\$ 101,296,283	\$ 103,822,873	\$ (2,526,590)	-2.4%
Operating expenses	<u>116,145,499</u>	<u>120,100,950</u>	<u>(3,955,451)</u>	-3.3%
Operating loss	(14,849,216)	(16,278,077)	1,428,861	-8.8%
Non-operating revenues (expense), net	<u>(3,522,792)</u>	<u>(2,237,736)</u>	<u>(1,428,861)</u>	63.9%
Income (loss) before capital contributions from primary government	(18,372,008)	(18,515,813)	(1,428,861)	7.7%
Capital contributions from primary government	<u>14,350,739</u>	<u>15,855,206</u>	<u>1,428,861</u>	9.0%
Change in net position	(4,021,269)	(2,660,607)	(1,428,861)	53.7%
Net position at beginning of year	178,144,697	180,708,053	1,428,861	0.8%
Adjustments to net position at beginning of year	<u>(9,914,145)</u>	<u>97,251</u>	<u>1,428,861</u>	0.0%
Net position at end of year	<u>\$ 164,209,283</u>	<u>\$ 178,144,697</u>	<u>\$ 1,428,861</u>	0.8%

For the year ended September 30, 2023, CUC incurred a loss from operations of about \$14.8 million as compared to a loss of \$16.3 million for the year ended September 30, 2022.

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Management's Discussion and Analysis, continued
September 30, 2023 and 2022

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.

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.

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Management's Discussion and Analysis, continued
September 30, 2023 and 2022

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 54 through 57).

ANALYSIS OF BASIC FINANCIAL STATEMENTS

Condensed Statements of Revenues, Expenses and Change in Net Position

	<u>2023</u>	<u>2022</u>
Operating revenues, net	\$ 101,296,283	\$ 103,822,873
Operating expenses	<u>116,145,499</u>	<u>120,100,950</u>
Loss from operations	(14,849,216)	(16,278,077)
Nonoperating revenues (expenses), net	680,263	3,272,657
Change in recovery of fuel costs	<u>(4,203,055)</u>	<u>(5,510,393)</u>
Net earnings (loss) before capital contributions and federal grants	(18,372,008)	(18,515,813)
Capital contributions and federal grants	<u>14,350,739</u>	<u>15,855,206</u>
Change in net position	(4,021,269)	(2,660,607)
Adjustment to retained earnings	(9,914,145)	97,251
Net position, beginning	<u>178,144,697</u>	<u>180,708,053</u>
Net position, ending	<u>\$ 164,209,283</u>	<u>\$ 178,144,697</u>

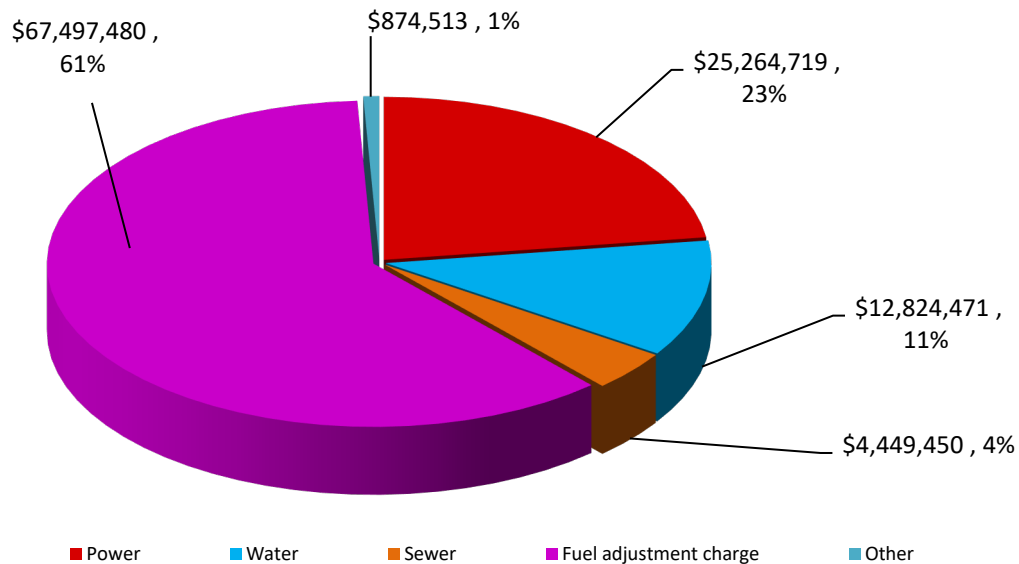
CUC's loss from its operations for the fiscal year ended September 30, 2023 is \$14.8 million.

COMMONWEALTH UTILITIES CORPORATION
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Management's Discussion and Analysis, continued
September 30, 2023 and 2022

Financial Highlights

Operating Revenues

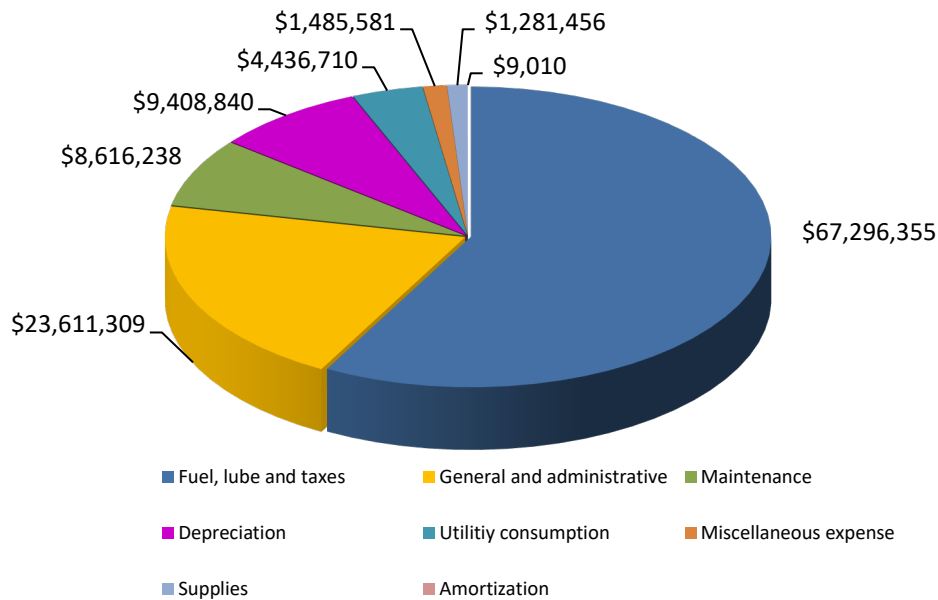
	2023	2022	\$ Change	% Change
Power	\$ 25,264,719	\$ 25,124,064	\$ 140,655	0.6%
Water	\$ 12,824,471	\$ 12,483,381	\$ 341,090	2.7%
Sewer	\$ 4,449,450	\$ 3,927,676	\$ 521,774	13.3%
Fuel adjustment charge	\$ 67,497,480	\$ 72,042,311	\$ (4,544,831)	-6.3%
Other	\$ 874,513	\$ 759,295	\$ 115,218	15.2%
Total	\$ 110,910,633	\$ 114,336,727	\$ (3,426,094)	-3.0%



COMMONWEALTH UTILITIES CORPORATION
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Management's Discussion and Analysis, continued
September 30, 2023 and 2022

Operating Expenses

	2023	2022	\$ Change	% Change
Fuel, lube and taxes	\$ 67,296,355	\$ 68,778,842	\$ (1,482,487)	-2.2%
General and administrative	\$ 23,611,309	\$ 22,468,535	\$ 1,142,774	5.1%
Maintenance	\$ 8,616,238	\$ 14,202,183	\$ (5,585,945)	-39.3%
Depreciation	\$ 9,408,840	\$ 9,644,371	\$ (235,531)	-2.4%
Utility consumption	\$ 4,436,710	\$ 2,803,914	\$ 1,632,796	58.2%
Miscellaneous expense	\$ 1,485,581	\$ 1,387,442	\$ 98,139	7.1%
Supplies	\$ 1,281,456	\$ 806,653	\$ 474,803	58.9%
Amortization	\$ 9,010	\$ 9,010	\$ -	0.0%
Total	<u>\$ 116,145,499</u>	<u>\$ 120,100,950</u>	<u>\$ (3,955,451)</u>	-3.3%



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
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Management's Discussion and Analysis, continued
September 30, 2023 and 2022

Capital Assets

On September 30, 2023, CUC had \$124,635,813 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>2023</u>	<u>2022</u>
Utility plant in service		
Electric plant	\$ 180,831,638	\$ 180,221,550
Water plant	91,698,865	88,768,733
Sewer plant	58,972,719	58,452,086
Administrative equipment	<u>4,165,887</u>	<u>4,138,737</u>
	335,669,109	331,581,106
Accumulated depreciation	<u>(243,232,983)</u>	<u>(234,193,218)</u>
Depreciable assets, net	92,436,126	97,387,888
Right-to-use leased asset		
Land	360,408	360,408
Accumulated amortization	<u>(21,023)</u>	<u>(12,013)</u>
	339,385	348,395
Construction work-in progress	<u>31,860,302</u>	<u>25,349,599</u>
Capital assets, net	<u>\$ 124,635,813</u>	<u>\$ 123,085,882</u>

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

Debt

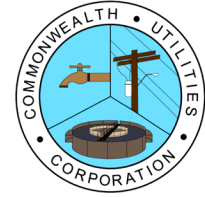
Long-term debts as of September 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
U.S. Environmental Protection Agency	\$ 65,625	\$ 144,375
U.S. Coast Guard	246,875	543,125
Current maturities	<u>375,000</u>	<u>375,000</u>
Long-term debt	<u>\$ 687,500</u>	<u>\$ 1,062,500</u>

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



COMMONWEALTH UTILITIES CORPORATION
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MANAGEMENT'S DISCUSSION & ANALYSIS
Years Ended September 30, 2023 and 2022

Executive Director's Report Summary

During Fiscal Year 2023, the Commonwealth Utilities Corporation (CUC) continued to strive to provide safe and reliable power, water, and wastewater services to the people of the Commonwealth of the Northern Mariana Islands (CNMI). I am pleased to report on CUC's accomplishments in Fiscal Year 2023 in delivering critical services to the islands of Saipan, Tinian, and Rota.

Water & Wastewater

Construction Projects

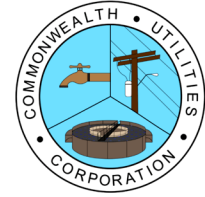
1. Isley Booster II Transmission Main and Booster Pump Upgrade
 - Project cost: \$1,956,370.00
 - Funding Source: EPA
2. Island-Wide Water Meter Installation
 - Project cost: \$108,000.00
 - Funding Source: EPA.
3. Granular Activated Carbon Changeout (10 Units)
 - Project Cost: \$565,000.00
 - Funding Source: ARPA - \$500,000.00; EPA - \$65,000.00.
4. A-2 Sewer Lift Station
 - Project Cost: \$530,990.00
 - Funding Source: EPA.
5. A-6 Sewer Lift Station
 - Project Cost: \$484,949.00
 - Funding Source: EPA
6. Sludge Dewatering Equipment Purchase & Installation
 - Location: Sadog Tasi and Agingan Wastewater Treatment Plants
 - Project Cost: \$918,765.71
 - Funding Source: EPA.
7. Primary Screen Purchase & Installation for Sadog Tasi Wastewater Treatment Plant
 - Project Cost: \$1,017,419.00
 - Funding Source: EPA - \$375,000.00; Local Appropriations - \$642,419.00.

Completed Design Projects

1. Commonwealth Drive Waterline Replacement Project - Funded by EPA.
2. As Terlaje 16-inch Waterline Replacement Project.
3. Dandan Water Tank Replacement Project - Funded by CDBG, with the construction managed by CDBG-NMHC.
4. West San Jose Homestead Waterline Project.
5. Carolinas Waterline Project.
6. Afetna Sewer Collection Upgrade Project - Funded by EPA.



COMMONWEALTH UTILITIES CORPORATION
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MANAGEMENT'S DISCUSSION & ANALYSIS
Years Ended September 30, 2023 and 2022

7. Agingan Wastewater Treatment Plant Electrical Upgrades - Funded by EPA.
8. Agingan Wastewater Treatment Plant Rehabilitation – Phase II Project - Funded by EPA and ASADRA.

Ongoing Water Design Projects

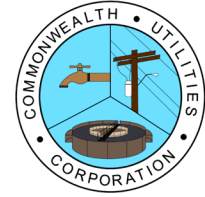
1. Sihek Drive & Tangan-Tangan Drive Waterline Replacement Project
 - Design Cost: \$138,863.00
 - Funding Source: EPA
2. Maui IV Cost Benefit Analysis
 - Design Cost: \$99,407.00
 - Funding Source: EPA
3. Donnie Springs Hydrological Assessment Project
 - Design Cost: \$83,072.00
 - Funding Source: EPA
4. Afetnas Waterline Replacement Project
 - Design Cost: \$144,400.00
 - Funding Source: ARPA
5. Kagman 1.0 MG Water Tank Replacement Project
 - Design Cost: \$173,922.06
 - Funding Source: CBDG
6. Tinian 0.50 MG Water Tank Replacement Project
 - Design Cost: \$209,997.00
 - Funding Source: CBDG
7. Kagman 0.050 MG Water Tank Replacement – Phase 2 Project
 - Design Cost: \$110,237.00
 - Funding Source: ARPA
8. Water System Mitigation Phase II Project
 - Design Cost: \$706,261.00
 - Funding Source: FEMA

On-going Wastewater Design Projects

1. Sadog Tasi Wastewater Treatment Plant Upgrades Project
 - Design cost: \$662,132.00
 - Funding Source: EPA and ASADRA
2. A-16 Sewer Lift Station Rehabilitation Project
 - Design Cost: \$139,113.00
 - Funding Source: EPA
3. A-3, A-4, and A-15 Sewer Lift Station Renovation Project
 - Design Cost: \$169,900.00
 - Funding Source: EPA
4. S-11 and S-12 Sewer Lift Station Relocation Project



COMMONWEALTH UTILITIES CORPORATION
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MANAGEMENT'S DISCUSSION & ANALYSIS
Years Ended September 30, 2023 and 2022

- Design Cost: \$262,481.00
- Funding Source: EPA

On-going Water Construction Projects

1. Lower Base – San Roque Cut & Cap of Parallel Lines Project
 - Project Cost: \$1,500,000.00
 - Funding Source: EPA
2. San Antonio Waterline Replacement
 - Project Cost: \$1,913,102.00
 - Funding Source: EPA
3. Agag Booster Pump Rehabilitation Project
 - Project Cost: \$1,400,000.00
 - Funding Source: EPA
4. Purchase & Delivery of Meter Test Bench and Portable Test Bench Project
 - Project Cost: \$627,000.00
 - Funding Source: EPA
5. AMI/AMR Pilot Study Project
 - Project Cost: \$359,044.00
 - Funding Source: OIA
6. Purchase & Installation of GAC Treatment System Project
 - Project Cost: \$2,158,020.00
 - Funding Source: EDA/OIA

On-going Wastewater Construction Projects

1. A-5 Sewer Lift Station Project
 - Project Cost: \$474,079.00
 - Funding Source: EPA
2. Sewer Main Replacement Phase II (Royal Palm & Ginger Avenue) Project
 - Project Cost of \$474,079.00
 - Funding Source: EPA
3. Lower Base Sewer Phase II – Gravity Mains Project
 - Project Cost: \$2,000,000.00
 - Funding Source: EPA
4. Replacement of the Sadog Tasi Wastewater Treatment Plant Clarifier
 - Project Cost: \$2,636,346.00
 - Funding Source: EPA
5. A-16 Sewer Lift Station Generator Replacement Project
 - Project Cost: \$153,466.00
 - Funding Source: EPA
6. Sewer Line and Manhole Replacement Project
 - Project Cost of \$1,800,000.00



COMMONWEALTH UTILITIES CORPORATION

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MANAGEMENT'S DISCUSSION & ANALYSIS Years Ended September 30, 2023 and 2022

- Funding Source: EPA
- 7. Garapan Sewer Line Replacement (Lower MIHA) Project
 - Project Cost: \$2,282,834.38
 - Funding Source: EPA
- 8. Repair of (6) six By-Pass Locations Project
 - Project Cost of \$2,080,000.00
 - Funding Source: ARPA
- 9. Garapan Sewer Mains and Manholes Replacement Project
 - Project Cost: \$869,361.00
 - Funding Source: ARPA

Challenges Facing the Water & Wastewater Facilities:

- Non-Revenue Water
- GAC Media Replacement Funding
- Situation Awareness / SCADA
- Aging Infrastructure
- Recruitment and Retention
- Environmental Permitting
- Fats, Oils, & Grease (FOG)

Power Generation

Saipan

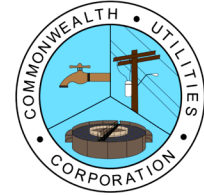
1. **Delivery of New Engine (DE #4):** A new diesel engine was delivered to Power Plant No. 1.
2. **Reconditioning of DE #7 Components:** CUC Staff successfully reconditioned 15-cylinder heads for Diesel Engine #7.
3. **Installation of Backup Generator at Power Plant #3:** A 1.5 MW generator was installed and commissioned to serve as a backup power plant to the Isley Field water wells.
4. **Preventive Maintenance:** Preventive maintenance was conducted in accordance with OEM recommendations to ensure optimal performance and longevity of power generation equipment.

Tinian

1. **Power Plant and T&D System Turnover:** On November 1, 2023, the operation and maintenance of the power plant and transmission and distribution (T&D) system were officially transferred from Telesource to the Commonwealth Utilities Corporation (CUC).
2. **Installation of Bitronics Meters:** New Bitronics meters were installed for DE#5 and Feeder 4 (IBB) to enhance monitoring and metering accuracy.



COMMONWEALTH UTILITIES CORPORATION
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MANAGEMENT'S DISCUSSION & ANALYSIS
Years Ended September 30, 2023 and 2022

Power Transmission and Distribution

1. Resilience Enhancement with Hazard Mitigation Grant Program:

CUC continued to work with the State Hazard Mitigation Grant Program to strengthen the resilience of the power transmission and distribution system. This includes hardening power poles and installing new underground power cable from Power Plant No. 1 to the Commonwealth Healthcare Corporation (CHCC).

2. Vegetation Management Program: With funding assistance from the American Rescue Plan Act (ARPA) through the CNMI to maintain the vegetation near power lines to ensure electrical services to the water and wastewater facilities and the community.

Operating Revenues

Power	Water	Wastewater	Total
\$99,169,061	\$13,151,035	\$4,486,759	\$116,806,855

Operating Expenses

	Power	Water	Wastewater	Admin and General	Total
Production Fuel	\$67,296,355				\$67,296,355
General Administrative	\$4,624,391	\$3,820,167	\$835,720	\$14,331,031	\$23,611,309
Maintenance	\$5,052,763	\$2,159,649	\$597,675	\$806,151	\$8,616,238
Depreciation	\$4,747,531	\$2,285,025	\$2,218,735	\$157,549	\$9,408,840
Utility Consumption	\$2,073,149	\$1,840,826	\$521,321	\$1,414	\$4,436,710
Miscellaneous Expense	\$297,276	\$477,262	\$178,004	\$1,823,505	\$2,776,047

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Statements of Net Position
As of September 30, 2023 and 2022

	2023	2022
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>		
Current assets:		
Cash and cash equivalents - unrestricted	\$ 45,681,777	50,313,804
Cash and cash equivalents - restricted	12,602,076	13,316,025
Total cash and cash equivalents	58,283,853	63,629,829
Accounts receivable - utility, net	14,250,701	15,309,330
Due from grantor agencies	5,786,721	5,323,688
Inventory	24,492,606	25,471,871
Notes receivable, net	125,016	151,619
Prepayments and other assets, net	2,916,770	1,711,825
Total current assets	105,855,667	111,598,162
Non-current assets:		
Depreciable utility plant, net of accumulated depreciation	92,436,126	97,387,888
Non-depreciable utility plant	31,860,302	25,349,599
Right-to-use asset, net	339,385	348,395
Total non-current assets	124,635,813	123,085,882
Total assets	230,491,480	234,684,044
Deferred outflows of resources:		
Unbilled fuel cost recovery	-	1,242,434
Total deferred outflows of resources	-	1,242,434
Total assets and deferred outflows of resources	\$ 230,491,480	235,926,478
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued liabilities	11,774,526	15,402,019
Due to primary government - OPA fee	18,507,949	10,068,583
Compensated absences	1,374,632	1,604,922
Security deposits, including accrued interest	12,602,076	12,331,043
Environmental remediation liability, current portion	375,000	375,000
Operating lease liability, current portion	1,808	1,731
Total current liabilities	44,635,991	39,783,298
Non-current liabilities:		
Retirement contributions payable	3,231,607	3,481,607
Unearned local grants	13,573,407	12,071,126
Unearned revenue	494,700	503,071
Environmental remediation liability, non-current portion	312,500	687,500
Dividends payable	720,000	900,000
Operating lease liability, non-current portion	353,371	355,179
Total non-current liabilities	18,685,585	17,998,483
Total liabilities	63,321,576	57,781,781
Deferred inflows of resources:		
Overbilled fuel cost recovery	2,960,621	-
Total deferred inflows of resources	2,960,621	-
Net position:		
Net investment in capital assets	124,635,813	123,085,882
Restricted	45,000,000	45,000,000
Unrestricted	(5,426,530)	10,058,815
Total net position	164,209,283	178,144,697
Total liabilities and net position	\$ 230,491,480	235,926,478

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, 2023 and 2022

	2023	2022
Operating revenues:		
Power	\$ 25,264,719	25,124,064
Water	12,824,471	12,483,381
Sewer	4,449,450	3,927,676
Fuel adjustment charge	67,497,480	72,042,311
Other revenue	874,513	759,295
	110,910,633	114,336,727
Provisions for uncollectible accounts	(9,614,350)	(10,513,854)
Net operating revenues	101,296,283	103,822,873
Operating expenses:		
Fuel, lube and taxes	67,296,355	68,778,842
General and administrative	23,611,309	22,468,535
Maintenance	8,616,238	14,202,183
Depreciation	9,408,840	9,644,371
Utility consumption	4,436,710	2,803,914
Miscellaneous expense	1,485,581	1,387,442
Supplies	1,281,456	806,653
Amortization	9,010	9,010
	116,145,499	120,100,950
Operating loss	(14,849,216)	(16,278,077)
Non-operating revenues (expenses):		
Interest income and late charges	2,398,313	4,813,523
Miscellaneous income	508,777	638,638
Interest expense	(31,115)	(15,595)
Settlement	(388,311)	(506,514)
Contributions to primary government - OPA fee	(907,401)	(757,395)
Dividends	(900,000)	(900,000)
Change in deferred fuel cost	(4,203,055)	(5,510,393)
	(3,522,792)	(2,237,736)
Loss before capital contributions from primary government	(18,372,008)	(18,515,813)
Capital contributions from primary government	14,350,739	15,855,206
Change in net position	(4,021,269)	(2,660,607)
Net position at the beginning of the year	178,144,697	180,708,053
Adjustments to net position at the beginning of the year	(9,914,145)	97,251
Net position at the end of the year	\$ 164,209,283	178,144,697

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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash received from customers	\$ 105,528,523	101,749,029
Cash payments to suppliers for goods and services	(90,779,471)	(89,481,888)
Cash payments to employees for services	(11,255,766)	(11,475,934)
Net cash provided by (used for) operating activities	3,493,286	791,207
Cash flows from non-capital financing activities:		
Dividend payments	(1,080,000)	(1,080,000)
Settlement payments	(388,311)	(506,514)
Principal payments for lease liability	(1,731)	(1,657)
Principal payments for environmental liability	(375,000)	(375,000)
Net cash used for non-capital financing activities	(1,845,042)	(1,963,171)
Cash flows from capital and related financing activities:		
Capital contributions received	30,586,129	30,064,115
Capital contributions used	(16,698,423)	(11,851,681)
Acquisition and construction of capital assets	(20,881,926)	(12,136,201)
Net cash provided by capital and related financing activities	(6,994,220)	6,076,233
Net change in cash and cash equivalents	(5,345,976)	4,904,269
Cash and cash equivalents - unrestricted	50,313,804	45,983,449
Cash and cash equivalents - restricted	13,316,025	12,742,111
Balances at the beginning of the year	63,629,829	58,725,560
Cash and cash equivalents - unrestricted	45,681,777	50,313,804
Cash and cash equivalents - restricted	12,602,076	13,316,025
Balances at the end of the year	\$ 58,283,853	63,629,829

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

COMMONWEALTH UTILITIES CORPORATION

(A Component of the CNMI Government)

Statements of Cash Flows, continued

For the Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	\$ (14,849,216)	(16,278,077)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Bad debts	9,614,350	10,513,854
Depreciation	9,408,840	9,644,371
Amortization	9,010	9,010
Interest income and late charges	2,398,313	4,813,523
Miscellaneous income	508,777	638,638
Contributions to primary government - OPA fee	-	(757,395)
Change in deferred fuel cost	(4,203,055)	(5,510,393)
Interest expense	(31,115)	(15,595)
Decrease (increase) in operating assets:		
Accounts receivable - utility, net	(8,555,721)	(18,038,617)
Inventory	979,265	(1,248,961)
Notes receivable, net	26,603	9,666
Prepayments and other assets, net	(1,204,945)	(200,621)
Unbilled fuel cost recovery	4,203,055	5,510,393
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(3,627,493)	2,465,765
Due to primary government - OPA fee	7,531,965	757,394
Compensated absences	(230,290)	-
Security deposits, including accrued interest	271,033	4,687
Retirement contributions payable	(250,000)	14,182
Unearned local grants	1,502,281	8,491,873
Unearned revenue	(8,371)	(32,490)
Net cash provided by (used for) operating activities	<u>\$ 3,493,286</u>	<u>791,207</u>
Supplemental disclosure to the statement of cash flow:		
Interest paid	<u>\$ 31,115</u>	<u>15,601</u>
Supplemental disclosure of noncash financing and investing activities:		
Adjustments to capital assets effected in retained earnings	<u>\$ -</u>	<u>97,251</u>

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 30, 2023 and 2022

(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 30, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

Concentrations of Credit Risk

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

On September 30, 2023 and 2022, 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, 2023 and 2022, CUC recorded gross notes receivable of \$193,884 and \$187,596, respectively, and the related allowance of \$68,868 and \$35,977, 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 in excess of receipts are recognized as due from grantor agencies until funds are received in accordance with grant terms and conditions. As of September 30, 2023 and 2022, CUC recorded due from grantor agencies of \$5,786,721 and \$5,323,688, respectively.

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)

Notes to the Financial Statements
September 30, 2023 and 2022

(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, 2023 and 2022.

Prepayments and Other Assets

Payments made to vendors for services that will benefit future periods are recorded as prepayments. As of September 30, 2023 and 2022, CUC recorded prepayments of \$2,707,271 and \$1,461,744, 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 \$22,045 and \$15,884 as of September 30, 2023 and 2022, respectively, and net other receivables of \$187,454 and \$234,197, respectively, both having an allowance of \$721,447 as of September 30, 2023 and 2022, 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

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)

Notes to the Financial Statements
September 30, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

Fuel Cost, continued

promptly provide calculations and supporting work papers to CPUC. This change shall be 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, 2023 and 2022 are as follows:

<u>September 30, 2023</u>		<u>September 30, 2022</u>	
<u>Effective Date</u>	<u>FAC Rates</u>	<u>Effective Date</u>	<u>FAC Rates</u>
November 1, 2022	\$0.34235	November 1, 2021	\$0.23296
December 1, 2022	\$0.32360	January 1, 2022	\$0.20909
January 1, 2023	\$0.27989	February 1, 2022	\$0.23908
April 1, 2023	\$0.25671	March 1, 2022	\$0.27122
June 1, 2023	\$0.22090	April 1, 2022	\$0.34564
August 1, 2023	\$0.24435	May 1, 2022	\$0.36225
September 1, 2023	\$0.29174	July 1, 2022	\$0.43285
		August 1, 2022	\$0.37241
		September 1, 2022	\$0.34235

The unbilled (overbilled) fuel cost recovery at September 30, 2023 and 2022 is as follows:

	2023	2022
At the beginning of the year	\$ 1,242,434	6,752,827
Change in the recovery of fuel cost	(4,203,055)	(5,510,393)
At the end of the year	\$ (2,960,621)	1,242,434

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 30, 2023 and 2022

(2) Summary of Significant Accounting Policies, continued

Utility Plant, continued

CUC's current policy is to capitalize items that cost at least \$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. In accordance with GASB 89, Accounting for Interest Cost Incurred before the End of a Construction Period, CUC does not capitalize interest costs on borrowings incurred during the new construction or upgrade of qualifying assets. Interest is expensed in the period it is incurred.

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, 2023 and 2022 amounted to \$1,374,362 and \$1,604,922, respectively.

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, 2023 and 2022, 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, 2023 and 2022, 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 30, 2023 and 2022

(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 \$158,454, \$166,121 and \$132,143 to the DB Plan during the years ended September 30, 2023, 2022 and 2021, 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 30, 2023 and 2022

(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, 2023, 2022 and 2021 were \$282,986, \$277,718 and \$221,628, 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, 2023 and 2022 included as receivables in the accompanying financial statements were \$7,537,323 and \$8,194,256, 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 before being earned and relates to grant money and credit vouchers of \$13,573,407 and \$494,700, respectively as of September 30, 2023 and \$12,071,126 and \$503,071, respectively, as of September 30, 2022, 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 30, 2023 and 2022

(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 30, 2023 and 2022

(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.

During the fiscal year ended September 30, 2022, 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
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Notes to the Financial Statements
September 30, 2023 and 2022

(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, 2023 and 2022 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, 2023 and 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. GASB Statement No. 91 was adopted in the fiscal year ending September 30, 2023 and had no material effect on the financial statements.

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. GASB Statement No. 94 was adopted in the fiscal year ending September 30, 2023 and had no material effect on the financial statements.

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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. GASB Statement No. 96 was adopted in the fiscal year ending September 30, 2023 and had no material effect on the financial statements.

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.

In December 2023, GASB issued Statement No. 103, *Accounting and Financial Reporting for Nonexchange Transactions*. State and local governments engage in various nonexchange transactions, in which resources are transferred to or from the government without a direct exchange of goods or services. The objective of this Statement is to enhance the consistency and transparency of financial reporting for these types of transactions by establishing clear guidance on how governments should account for and report these transactions.

This Statement provides specific guidance on the recognition, measurement, and reporting of revenues and expenditures for nonexchange transactions, including grants, donations, and entitlements. It requires that governments recognize revenue when an eligibility requirement is met, and expenditures when the related liability is incurred. Additionally, the Statement clarifies the treatment of certain items such as property taxes, fines, and penalties, ensuring consistency in their recognition and measurement.

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(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

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.

In December 2023, GASB issued Statement No. 104, *Accounting and Financial Reporting for Investments and Investment Pools*. State and local governments invest funds to support their operations and meet future financial obligations. The objective of this Statement is to establish comprehensive standards for accounting and financial reporting related to investments and investment pools, to improve the consistency, transparency, and comparability of investment reporting.

This Statement outlines new requirements for the recognition, measurement, and reporting of investments, including how to classify investments as either "investments" or "cash equivalents" and how to report changes in the fair value of investments. The Statement also provides guidance on the reporting of investment pools, including disclosures regarding the pooling arrangement, the type of investments, and the risks associated with the investments.

Additionally, the Statement establishes requirements for the reporting of investment income, including interest, dividends, and realized and unrealized gains or losses. The goal is to provide users of financial statements with relevant and reliable information that reflects the financial position and performance of governmental investments and investment pools.

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.

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(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.

As of September 30, 2023 and 2022, total cash and cash equivalents were \$58,283,853 and \$63,629,829, respectively, and the corresponding bank balances were \$53,987,356 and \$64,104,852, respectively. Of the bank balance amounts, \$52,572,517 and \$62,886,712 as of September 30, 2023 and 2022, respectively, are maintained in financial institutions subject to FDIC insurance. The uninsured portions are \$53,737,356 and \$62,636,712 as of September 30, 2023, and 2022, 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 \$12,602,076 and \$13,316,025 at September 30, 2023 and 2022, respectively, pertain to customer deposits.

(4) Accounts Receivable – Utility

Accounts receivable - utility as of September 30, 2023 and 2022 are presented below:

	2023	2022
By customer classification:		
Billed:		
Commercial	5,459,554	6,098,188
Residential	7,338,286	6,580,015
Government	43,580,695	36,287,142
Unbilled and disputed	19,412,480	18,302,840
Accounts receivable	75,791,015	67,286,185
Allowance for uncollectible accounts	(61,540,314)	(51,958,855)
Accounts receivable, net	\$ 14,250,701	15,309,330

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Notes to the Financial Statements

September 30, 2023 and 2022

(4) Accounts Receivable – Utility, continued

	<u>2023</u>	<u>2022</u>
By location:		
Saipan:		
Commercial	\$ 3,729,974	4,098,183
Residential	6,776,658	6,067,348
Government	<u>39,331,243</u>	<u>33,003,247</u>
	49,837,875	43,168,778
Tinian:		
Commercial	1,618,829	1,785,824
Residential	267,744	238,210
Government	<u>1,182,101</u>	<u>1,142,351</u>
	3,068,674	3,166,385
Rota:		
Commercial	110,752	214,180
Residential	293,882	274,458
Government	<u>3,067,352</u>	<u>2,141,544</u>
	<u>3,471,986</u>	<u>2,630,182</u>
Total billed	56,378,535	48,965,345
Unbilled and disputed	<u>19,412,480</u>	<u>18,302,840</u>
Accounts receivable	<u>\$ 75,791,015</u>	<u>67,268,185</u>

Changes in allowance for uncollectible accounts for the years ended September 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Total allowance, beginning of the year	\$ 51,958,855	41,445,001
Provision for uncollectible customer accounts	<u>9,581,459</u>	<u>10,513,854</u>
Total allowance, end of year	<u>\$ 61,540,314</u>	<u>51,958,855</u>

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(4) Accounts Receivable – Utility, continued

Provisions for uncollectible accounts for the years ended September 30, 2023 and 2022 were as follows:

	2023	2022
Provision for uncollectible customer accounts	\$ 9,581,459	10,513,854
Provision for uncollectible notes	32,891	-
Total provisions for uncollectible accounts	\$ 9,614,350	10,513,854

Penalties from delinquent payments are not included in the gross accounts receivable – utility and are accounted separately. Information about the assessed penalties on late payments is as follows:

	2023	2022
Residential	\$ 460,799	408,837
Commercial	238,326	171,030
Government	28,332,854	21,500,755
Total assessed penalties	29,031,979	22,080,622
Allowance for uncollectible penalties	(29,031,979)	(22,080,622)
Assessed penalties, net	\$ -	-

(5) Inventory

Inventory balances as of September 30, 2023 and 2022 are as follows:

	2023	2022
Fuel and lubes	\$ 3,492,405	5,544,028
Materials and supplies	21,743,144	20,670,786
	25,235,549	26,214,814
Allowance for obsolescence	(742,943)	(742,943)
Inventory, net	\$ 24,492,606	25,471,871

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(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 expenditure of direct and pass-through federal grants of \$9,459,998 and \$4,965,688, respectively, for the year ended September 30, 2023, and \$6,266,437 and \$9,404,886, respectively, for the year ended September 30, 2022.

(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, 2023 and 2022 is as follows:

	2023	2022
Electric	\$ 11,104,432	10,835,427
Water	619,868	618,974
Sewer	271,384	273,323
Total security deposits	11,995,684	11,727,724
Accrued interest on security deposits	606,392	603,319
Security deposits, including interest	\$ 12,602,076	12,331,043

(8) Capital Assets

Included in utility plant in service adjustments/transfers for the fiscal years ended September 30, 2023 and 2022 are completed projects transferred from construction work-in-progress to utility plant in service of \$0 and \$2,426,739, respectively.

CUC entered several construction contracts during fiscal year 2023 for improvements, rehabilitation, and replacement of facilities and other capital projects. As of September 30, 2023 and 2022, CUC had outstanding construction contracts totaling \$21,392,604 and \$11,085,463, 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, 2023 and 2022 are as follow:

	Useful Lives	2023				September 30, 2023
		October 1, 2022	Additions	Disposals	Adjustments or Transfers	
Non-depreciable capital assets:						
Construction in progress		\$ 25,349,599	\$ 6,510,703	\$ -	\$ -	\$ 31,860,302
Total non-depreciable capital assets		25,349,599	6,510,703	-	-	31,860,302
Depreciable capital assets:						
Utility plant in service:						
Electric plant	25 years	180,221,550	894,930	284,842	-	180,831,638
Water plant	25 years	88,768,733	2,947,382	17,250	-	91,698,865
Sewer plant	25 years	58,452,086	530,632	9,999	-	58,972,719
Administrative equipment	3-5 years	4,138,737	27,150	-	-	4,165,887
		331,581,106	4,400,094	312,091	-	335,669,109
Accumulated depreciation		(234,193,218)	(9,408,840)	(369,075)	-	(243,232,983)
Total depreciable capital assets		97,387,888	(5,008,746)	(56,984)	-	92,436,126
Right-to-use leased assets:						
Land	40 years	360,408	-	-	-	360,408
Accumulated amortization		(12,013)	(9,010)	-	-	(21,023)
		348,395	(9,010)	-	-	339,385
Total capital assets, net		<u>\$123,085,882</u>	<u>\$ 1,492,947</u>	<u>\$ (56,984)</u>	<u>\$ -</u>	<u>\$124,635,813</u>

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(8) Capital Assets, continued

	Useful Lives	2022				September 30, 2022
		October 1, 2021	Additions	Disposals	Adjustments or Transfers	
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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(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, 2023 and 2022, CUC recognized outstanding payables to the CNMI Government of \$18,507,949 and \$10,068,583, respectively, based on 1% of CUC's operations budget. The balance at September 30, 2022 excluded fuel costs from the calculation (see footnote 19).

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. Payments made during the years ended September 30, 2023 and 2022 were \$907,401 and \$-0-, respectively.

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, 2023 and 2022, CUC recorded retirement contributions payable of \$3,231,607 and \$3,481,607, respectively. No payment has been made as of September 30, 2023 and 2022 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 \$4,971,833. CUC will also offset up to \$600,000.00 annually from CPA water charges.

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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 (now known as CEDA).

CUC and CEDA 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 CEDA. 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 CEDA has constructive receipt of the preferred shares through the execution of the MOA.

On August 17, 2016, CUC entered into an agreement with CEDA for the total amount of unpaid dividend payments owed to CEDA 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, 2023 and 2022 amounted to \$720,000 and \$900,000, respectively.

(12) Commitments and Contingencies

Commitments

Capital Commitments

At September 30, 2023, CUC had commitments of \$21.393 million for construction, purchases of inventory, and acquisition of property and equipment, all of which are expected to be incurred in 2024.

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September 30, 2023 and 2022

(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 on the island of Tinian. The agreement is for two years, beginning April 1, 2020. In March 2022, the commitment was extended for another six months and was not renewed afterward.

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. The offset only applies to all CPA Saipan International Airport facilities and infrastructure. The agreement does not cover Water Electric Charge (WEC), which CUC will continue to charge CPA every month.

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.

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(12) Commitments and Contingencies, continued

Commitments, continued

Omnibus Agreement, continued

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

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.

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September 30, 2023 and 2022

(12) Commitments and Contingencies, continued

Commitments, continued

Stipulated Orders, continued

The SO₂ 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 SO₂ 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, 2023.

(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 SO₂ 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.

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September 30, 2023 and 2022

(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 agreed to pay this amount 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,

2024	\$ 375,000
2025	<u>312,500</u>
	<u>687,500</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

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September 30, 2023 and 2022

(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>
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>\$ 753,428</u>	<u>\$ 355,179</u>	<u>\$ 398,249</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, 2023 and 2022.

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Notes to the Financial Statements

September 30, 2023 and 2022

(15) Leases, continued

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

	<u>2023</u>	<u>2022</u>
Right-to-use asset	\$ 339,385	348,395
Lease liabilities, current	\$ 1,808	1,731
Lease liabilities, non-current	353,371	355,179
Lease liabilities	\$ 355,179	356,910

The following summarizes lease expenses for the years ended September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Interest expense	\$ 31,115	15,595
Amortization expense	9,010	9,010
Expenses related to the lease	\$ 40,125	24,605

Supplemental information related to the Company's leases follows:

	<u>2023</u>	<u>2022</u>
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating lease	\$ 17,258	17,258
Weighted average remaining lease terms	38 years	39 years
Weighted average discount rate	4.36%	4.36%

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Notes to the Financial Statements
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(16) 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.

(17) Reclassification

Certain reclassifications have been made to 2022 financial statements to conform to the current year financial statement presentation. These reclassifications had no effect on previously reported net earnings.

(18) Restatement

The beginning net position as of September 30, 2023, was restated for \$9,914,145. The breakdown of the restatement is as follows:

Adjustment to conform with GASB 87	\$ 9,010
Adjustment for inventory	(26,086)
Adjustment for the 1% OPA fees	8,439,367
Adjustment related to SEFA	<u>1,491,854</u>
	<u>\$ 9,914,145</u>

The adjustment related to SEFA is for income that was not recognized in the correct year. The adjustment for the 1% OPA fees is to agree on the amount based on the reconciliation of CUC and OPA, which is further discussed in note 19.

COMMONWEALTH UTILITIES CORPORATION
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Notes to the Financial Statements
September 30, 2023 and 2022

(19) Subsequent Events

1% OPA Fees Reconciliation

After September 30, 2023, CUC and OPA performed a reconciliation of the 1% fee payable to OPA. The reconciliation determined that the outstanding balance at September 30, 2023 was \$18,507,949. The 1% fee for the year ended September 30, 2023 was \$907,401. This is included in the accompanying financial statements as a non-operating expense "Contribution to primary government – OPA fee". CUC disclosed in some years, the liability for the fee on fuel purchases, as CUC was attempting to negotiate a settlement agreement with the central government. The liability would be recorded after the settlement agreement was signed.

CUC and the central government had agreed to this balance, and on September 27, 2024, a Memorandum of Agreement (MOA) was signed between the two parties, and they agreed to offset \$10.9 million of this balance owed to the CNMI government against accounts receivable for unpaid utility bills."

Public Law No. 24-11

On August 12, 2025, the Governor of the Commonwealth of the Northern Mariana Islands signed into law Public Law No. 24-11, "To reconcile public utility accounts between CHCC and CUC by waiving intra-governmental penalties and preserving enforceable debt obligations." Under this Act, all penalties, surcharges, interest, and late fees previously assessed by the CUC against the Commonwealth Healthcare Corporation (CHCC) were deemed satisfied in full. Only the principal obligations for utility services consumed remain enforceable and payable.

In connection with this legislation, CUC removed the waived amounts from its receivables, which totaled approximately \$33.9 million in penalties as of July 22, 2025. After applying adjustments and credits, the remaining enforceable principal due from CHCC was approximately \$35.8 million.

This event occurred subsequent to the September 30, 2023 reporting period and does not affect the balances reported as of that date.

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Notes to the Financial Statements
September 30, 2023 and 2022

(19) Subsequent Events, continued

FAC Rate Stabilization

After September 30, 2023, the Commonwealth Public Utilities Commission (CPUC) issued an order addressing the stabilization of the FAC applied to CUC. The FAC is a component of electric rates designed to recover fuel and fuel-related costs, and its stabilization seeks to mitigate volatility in customer rates caused by fluctuations in global fuel prices.

In 2025, CPUC's action resulted in adjustments to the FAC, including an increase effective February 1, 2025 from \$0.21119 to \$0.23498 per kWh, a decrease effective May 1, 2025 to \$0.20421 per kWh, and maintaining the rate at \$0.19706 per kWh as of July 2025. These regulatory developments occurred after September 30, 2023 and therefore represent subsequent events which do not affect the balances reported as of that date.

(20) Date of Management's Review

Management has evaluated subsequent events and transactions occurring after the statement of financial position date through the date of availability of the financial statements to be issued October 7, 2025. CUC has determined that none of the events occurring after the date of the statement of financial position substantially affects the amounts, presentation, and disclosure of the accompanying financial statements other than as disclosed in footnote 19 above.

COMMONWEALTH UTILITIES CORPORATION

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

For the Year Ended September 30, 2023

	<u>Power</u>	<u>Water</u>	<u>Sewer</u>	<u>Administrative and General</u>	<u>Elimination</u>	<u>Total</u>
Operating revenues:						
Government	\$ 7,050,205	4,880,672	2,753,149	-	(1,894,292)	12,789,734
Commercial	13,718,321	2,474,209	1,124,239	-	-	17,316,769
Residential	6,180,137	5,648,434	603,566	-	-	12,432,137
	<u>26,948,663</u>	<u>13,003,315</u>	<u>4,480,954</u>	-	<u>(1,894,292)</u>	<u>42,538,640</u>
Fuel adjustment charge	71,499,410	-	-	-	(4,001,930)	67,497,480
Other revenue	720,988	147,720	5,805	-	-	874,513
	<u>99,169,061</u>	<u>13,151,035</u>	<u>4,486,759</u>	-	<u>(5,896,222)</u>	<u>110,910,633</u>
Provisions for uncollectible accounts	<u>(4,833,367)</u>	<u>(2,801,447)</u>	<u>(1,979,536)</u>	-	-	<u>(9,614,350)</u>
Net operating revenues	94,335,694	10,349,588	2,507,223	-	(5,896,222)	101,296,283
Operating expenses:						
Fuel, lube and taxes	67,296,355	-	-	-	-	67,296,355
General and administrative	4,624,391	3,820,167	835,720	14,331,031	-	23,611,309
Maintenance	5,052,763	2,159,649	597,675	806,151	-	8,616,238
Depreciation	4,747,531	2,285,025	2,218,735	157,549	-	9,408,840
Utility consumption	4,828,287	4,287,215	1,214,136	3,294	(5,896,222)	4,436,710
Miscellaneous expense	-	-	-	1,485,581	-	1,485,581
Supplies	288,266	477,262	178,004	337,924	-	1,281,456
Amortization	9,010	-	-	-	-	9,010
Total operating expenses	<u>86,846,603</u>	<u>13,029,318</u>	<u>5,044,270</u>	<u>17,121,530</u>	<u>(5,896,222)</u>	<u>116,145,499</u>
Operating income (loss) before allocation of common costs	7,489,091	(2,679,730)	(2,537,047)	(17,121,530)	-	(14,849,216)
Allocation of common costs	<u>(15,067,951)</u>	<u>(1,653,108)</u>	<u>(400,471)</u>	<u>17,121,530</u>	-	<u>-</u>
Operating loss, rolled forward	(7,578,860)	(4,332,838)	(2,937,518)	-	-	(14,849,216)

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

COMMONWEALTH UTILITIES CORPORATION

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

For the Years Ended September 30, 2023

	<u>Power</u>	<u>Water</u>	<u>Sewer</u>	<u>Administrative and General</u>	<u>Elimination</u>	<u>Total</u>
Operating loss, carried forward	(7,578,860)	(4,332,838)	(2,937,518)	-	-	(14,849,216)
Non-operating revenues (expenses):						
Interest income and late charges	1,324,667	228,164	673,261	172,221	-	2,398,313
Miscellaneous income	4,509	6,575	16,943	480,750	-	508,777
Interest expense	(31,115)	-	-	-	-	(31,115)
Settlement	(26,719)	(138,798)	-	(222,794)	-	(388,311)
Contributions to primary government - OPA fee	(832,906)	(56,884)	(17,611)	-	-	(907,401)
Dividends	(900,000)	-	-	-	-	(900,000)
Change in deferred fuel cost	(4,203,055)	-	-	-	-	(4,203,055)
Total non-operating revenues (expenses)	(4,664,619)	39,057	672,593	430,177	-	(3,522,792)
Income before capital contributions from primary government and other items	(12,243,479)	(4,293,781)	(2,264,925)	430,177	-	(18,372,008)
Capital contributions from primary government	1,686,481	7,710,413	4,639,177	314,668	-	14,350,739
Change in net position	<u>\$ (10,556,998)</u>	<u>3,416,632</u>	<u>2,374,252</u>	<u>744,845</u>	<u>-</u>	<u>(4,021,269)</u>

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

COMMONWEALTH UTILITIES CORPORATION

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

For the Year 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 revenues:						
Government	\$ 7,115,942	3,686,389	2,066,837	-	(1,927,084)	10,942,084
Commercial	12,951,548	2,478,399	1,059,576	-	-	16,489,523
Residential	6,679,517	6,588,758	835,239	-	-	14,103,514
	<u>26,747,007</u>	<u>12,753,546</u>	<u>3,961,652</u>	-	<u>(1,927,084)</u>	<u>41,535,121</u>
Fuel adjustment charge	74,279,723	-	-	-	(2,237,412)	72,042,311
Other revenue	614,047	102,180	43,068	-	-	759,295
	<u>101,640,777</u>	<u>12,855,726</u>	<u>4,004,720</u>	-	<u>(4,164,496)</u>	<u>114,336,727</u>
Provisions for uncollectible accounts	<u>(5,523,173)</u>	<u>(3,055,023)</u>	<u>(1,935,658)</u>	-	-	<u>(10,513,854)</u>
Net operating revenues	96,117,604	9,800,703	2,069,062	-	(4,164,496)	103,822,873
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
Miscellaneous expense	-	-	-	1,387,442	-	1,387,442
Utility consumption	1,057,474	4,757,831	1,148,590	4,515	(4,164,496)	2,803,914
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	6,542,146	(2,563,877)	(2,425,483)	(17,830,863)	-	(16,278,077)
Allocation of common costs	<u>(10,653,679)</u>	<u>(1,981,075)</u>	<u>(668,271)</u>	<u>13,303,025</u>	-	-
Operating loss, rolled forward	(4,111,533)	(4,544,952)	(3,093,754)	(4,527,838)	-	(16,278,077)

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	(4,111,533)	(4,544,952)	(3,093,754)	(4,527,838)	-	(16,278,077)
Non-operating revenues (expenses):						
Settlement	(34,454)	(245,750)	-	(226,310)	-	(506,514)
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
Interest expense	(15,595)	-	-	-	-	(15,595)
Contributions to primary government - OPA fee	(599,529)	(53,614)	(16,064)	(88,188)	-	(757,395)
Change in deferred fuel cost	(5,510,393)	-	-	-	-	(5,510,393)
Dividends	(900,000)	-	-	-	-	(900,000)
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	(8,536,465)	(3,482,504)	(2,031,004)	(4,465,840)	-	(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>\$ (7,336,711)</u>	<u>629,500</u>	<u>901,552</u>	<u>3,145,052</u>	<u>-</u>	<u>(2,660,607)</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 Compliance
September 30, 2023

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 the 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 the the Commonwealth Utilities Corporation (CUC) as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise CUC's basic financial statements and have issued our report thereon dated October 7, 2025.

Report on 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 opinions 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 were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be significant deficiencies.

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Report on 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 the *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2023-001.

CUC's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the CUC's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. CUC's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Burger Comer & Associates

Saipan, MP
October 7, 2025



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Commonwealth Utilities Corporation

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited the Commonwealth Utilities Corporation (CUC)'s compliance with the types of compliance requirements identified as subject to audit 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, 2023. CUC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on 21.027 Coronavirus State and Local Fiscal Recovery Funds

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, CUC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on 21.027 Coronavirus State and Local Fiscal Recovery Funds for the year ended September 30, 2023.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, CUC complied, in all material respects, with the 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 auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2023.

Basis for Qualified and Unmodified Opinions

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of CUC and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of CUC's compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on 21.027 Coronavirus State and Local Fiscal Recovery Funds

As described in the accompanying schedule of findings and questioned costs, CUC did not comply with requirements regarding 21.027 Coronavirus State and Local Fiscal Recovery Funds as described in finding number 2023-002 Reporting.

Compliance with such requirements is necessary, in our opinion, for CUC to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to CUC's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on CUC's compliance based on our audit. 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, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about CUC's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 CUC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of CUC’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 CUC’s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on CUC’s response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. CUC’s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not 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.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on CUC's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. CUC's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Bruce Comer & Associates

Saipan, MP
October 7, 2025

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2023

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. Environmental Protection Agency	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	66.600	M-00T33717	\$ -	\$ 4,330,581	\$ 4,330,581	\$ -	
			M-00T33719	-	1,559,715.00	1,559,715	-	
			M-00T33721	-	1,479,919.00	1,479,919	-	
			M-98T07701	-	500,045	500,045	-	
			Total US Environmental Protection Agency	-	7,870,260	7,870,260	-	
U. S. Department of the Treasury (CNMI Government)	Coronavirus State and Local Fiscal Recovery Funds	21.027	CNMI22002	756,862	-	756,862	-	
			CNMI22003	412,451	-	412,451	-	
			CNMI22005	456,990	-	456,990	-	
			CNMI22026	339,403	-	339,403	-	
			CNMI22042A	84,678	-	84,678	-	
			CNMI22042B	207,228	-	207,228	-	
			CNMI22046	310,070	-	310,070	-	
Total US Department of the Treasury	2,567,682	-	2,567,682	-				

(continued)

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

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Schedule of Expenditures of Federal Awards, continued
For the Year Ended September 30, 2023

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 Interior (CNMI Government)	Economic, Social, and Political Development of the Territories	15.875	CNMI-EIC-2018-3	-	1,534	1,534	-	
			CNMI-EIC-2020-1	-	100,140	100,140	-	
			CNMI-EIC-2020-2	-	238,340	238,340	-	
			CNMI-EIC-2020-3	-	72,840	72,840	-	
			TAP-CNMI-2021-6	-	227,257	227,257	-	
			MAP-CNMI-2021-1	-	105,150	105,150	-	
			CNMI-CIP-2017-11	340,250	-	340,250	-	
			CNMI-CIP-2019-4	211,119	-	211,119	-	
			MAP-CNMI-2020-2	28,825	-	28,825	-	
			CNMI-CIP-2021-6	29,951	-	29,951	-	
			CNMI-EIC-2022-2	98,684	-	98,684	-	
			MAP-CNMI-2022-2	56,190	-	56,190	-	
			TAP-CNMI-2022-14	93,544	-	93,544	-	
			Total US Department of the Interior				858,563	745,261

(continued)

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Schedule of Expenditures of Federal Awards, continued
For the Year Ended September 30, 2023

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		
Federal Emergency Management Administration/Homeland Security (CNM Public Assistance Office)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4235-DR-MP	31,597	-	31,597	-	3, 4
			FEMA-4396-DR-MP	134,618	-	134,618	-	3, 4
			FEMA-4404-DR-MP	721,513	-	721,513	-	3, 4
			FEMA-4511-DR-MP	64,538	-	64,538	-	4
(CNMI Government)	Hazard Mitigation Grant Program	97.039	DR-4404-20-13R	490,640	-	490,640	-	4
			DR-4404-12-25R	28,270	-	28,270	-	4
			DR-4404-71-06R	60,963	-	60,963	-	4
Total Federal Emergency Management Administration/Homeland Security				1,532,139	-	1,532,139	-	
U. S. Department of Commerce and Economic Development Cluster	Economic Adjustment Assistance	11.307	07-79-07506	-	844,477	844,477	-	3
Total US Department of Commerce and Economic Development Cluster				-	844,477	844,477	-	
U. S. Department of Defense (CNMI Government)	Community Investment	12.600	HQ00052010078	7,304	-	7,304	-	
Total US Department of Defense				7,304	-	7,304	-	
Total Expenditures of Federal Awards				\$ 4,965,688	\$ 9,459,998	\$ 14,425,686	\$ -	

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 30, 2023

(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, 2023. 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 10 percent non-federal share of ALN 97.036 with other grant identifier number FEMA-4235-DR-MP is not included in the accompanying Schedule of Expenditures of Federal Awards.

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Notes to the Schedule of Expenditure of Federal Awards
September 30, 2023

(3) Summary of Significant Accounting Policies, continued

Matching Costs, continued

The 25 percent non-federal share of ALN 97.036 with other grant identifier number FEMA-4396-DR-MP is not included in the accompanying Schedule of Expenditures of Federal Awards.

The 10 percent non-federal share of ALN 97.036 with other grant identifier number FEMA-4404-DR-MP is not included in the accompanying Schedule of Expenditures of Federal Awards.

The 20 percent non-federal share of ALN 11.307 is not included in the accompanying Schedule of Expenditures of Federal Awards.

(4) Reimbursements

Grants from the Federal Emergency Management Agency (FEMA), particularly those under the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, are typically not available at the onset of a disaster, as eligibility is contingent upon a presidential disaster declaration.

CUC has a responsibility to safeguard and restore its fixed assets in the event of a disaster, regardless of grant eligibility. As such, CUC proceeded with necessary expenditures and later applied for FEMA assistance. The funds were received as reimbursements for costs already incurred.

Although the reimbursement did not represent a current-year expenditure, it was included in the Schedule to ensure consistency with the disbursed federal funds and to facilitate tracking by the cognizant agency.

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
 Schedule of Findings and Questioned Costs
 September 30, 2023

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?	_x_ Yes	
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	

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

- | | |
|---|------------|
| • 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support | Unmodified |
| • 21.027 Coronavirus State and Local Fiscal Recovery Funds | Qualified |
| • 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters) | Unmodified |
| • 11.307 Economic Adjustment Assistance | Unmodified |
| • 97.039 Hazard Mitigation Grant Program | Unmodified |

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Schedule of Findings and Questioned Costs
September 30, 2023

SECTION I – SUMMARY OF AUDITOR’S RESULT, continued

Federal Awards, continued

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

Identification of Major Programs

AL No.	Description	Federal Expenditures
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	\$ 7,870,260
21.027	Coronavirus State and Local Fiscal Recovery Funds	2,567,682
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	952,266
11.307	Economic Adjustment Assistance	844,477
97.039	Hazard Mitigation Grant Program	<u>579,873</u>
	Total Major Program Expenditures	<u>\$ 12,814,558</u>
Total Federal Expenditures		<u>\$ 14,425,686</u>
Percentage of Federal Expenditures tested as Major Programs		<u><u>88.83%</u></u>

Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000

Did the auditee qualify as low-risk? Yes x No

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
 Schedule of Findings and Questioned Costs
 September 30, 2023

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2023-001

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

Criteria:

According to CUC’s internal procurement policies and procedures, the procurement process must include sufficient transparency and competition to ensure fair vendor selection. Specifically:

- a) Public notice for project bidding must be made for a minimum of 30 calendar days, with weekly postings in a widely circulated newspaper to reach potential bidders.
- b) The bidding period must also remain open for a minimum of 30 calendar days from the date of initial public notice to allow adequate response time from prospective bidders.

Condition:

- a. For 2 or 8% of the 24 procurement contracts tested, the required public notice period of 30 calendar days was not met.

<u>Contract Number</u>	<u>Days of Public Notice</u>
CUC-PD-23-C036	27
CUC-WW-23-C011	28

- b. For 2 or 8% of the 24 procurement contracts tested, bidding periods shorter than the required 30 calendar days.

<u>Contract Number</u>	<u>Contract Number</u>
CUC-PD-23-C036	CUC-WW-23-C011

Cause:

The procurement timelines were not adequately monitored, which led to public notices being posted for fewer than the required 30 days and bidding periods being shortened. This reflects a lapse in the internal control processes intended to ensure compliance with procurement requirements.

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Schedule of Findings and Questioned Costs
September 30, 2023

SECTION II – FINANCIAL STATEMENTS FINDINGS, continued

Finding No. 2023-001, continued

Effect:

Not adhering to the full 30-day public notice and bidding period may have limited vendor participation and reduced the overall transparency of the procurement process. This noncompliance increases the risk of vendor disputes, challenges to the fairness of the process, and potential legal concerns for CUC.

Recommendation:

CUC should strengthen its internal control procedures for procurement by implementing a more rigorous process to ensure compliance with procurement policies. This can be achieved by:

1. Enhancing internal monitoring and review procedures to ensure full compliance with procurement timeline requirements.
2. Providing targeted training for procurement personnel on applicable policies and procedures.
3. Implementing standardized checklists to verify adherence to required public notice and bidding periods.
4. Utilizing automated tracking systems or calendar tools to monitor procurement timelines and ensure deadlines are met before contracts are finalized.

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 30, 2023

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, continued

Finding No. 2023-002

Federal Agency:	U. S. Department of Treasury
AL No.:	21.027
Program Title:	Coronavirus State and Local Fiscal Recovery Funds
Area:	Reporting
Repeat Finding from Prior Audit?	No
Questioned Cost:	\$0.00

Criteria:

Pursuant to 2 CFR 200.328, recipients of federal grants must submit performance reports that document project progress. These reports should compare actual accomplishments to established goals, explain any delays, and outline corrective actions. For construction projects, additional reporting is required, including project schedules, completion percentages, quality control documentation, and related materials.

Additionally, 31 CFR Section 35.4(c) mandates that recipients of federal funds submit periodic reports as required by the awarding agency. Recipients must maintain accurate records supporting financial and performance reports and provide additional information upon request to ensure compliance with federal requirements.

As specified in the grant award, recipients must submit quarterly progress reports by the end of the month following each quarter.

Condition:

For all four quarters, CUC prepared the quarterly reports; however, no assurance was provided as to whether the reports were submitted on time.

Cause:

The inability to confirm the timely submission of the reports stems from a lack of internal processes or tracking mechanisms to ensure that reports are submitted by the required deadlines. There was no systematic follow-up or verification to ensure compliance with reporting deadlines.

Effect:

The failure to ensure the timely submission of quarterly reports impacts the federal agency's ability to effectively monitor and assess the project's progress. It also creates a risk of noncompliance with federal guidelines, which could lead to delays in funding, increased scrutiny from the awarding agency, and potential administrative penalties.

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Schedule of Findings and Questioned Costs
September 30, 2023

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, continued

Finding No. 2023-002, continued

Recommendation:

CUC should implement the following corrective actions:

1. Establish and enforce internal controls to ensure the timely preparation and submission of monthly progress reports.
2. Assign responsibility to a designated compliance officer to monitor and verify compliance with reporting requirements.
3. Develop a tracking system to document the submission and review of reports.
4. Provide training to project managers and relevant personnel on reporting obligations under 2 CFR 200.328 and 31 CFR35.4(c).
5. Implement corrective action steps for future noncompliance, including escalation procedures for late or missing 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 30, 2023

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>
2022-001	Travel	Resolved	-	\$0.00
2022-002	Procurement	Pending	2023-001	\$0.00
2022-003	Human Resources	Resolved	-	\$0.00
2022-004	ALN 66.600 Special Tests and Provisions – Administrative Conditions: MBE/WBE Reporting - Reporting Condition	Resolved	-	\$0.00
2022-005	ALN 66.600 Special Tests and Provisions – Programmatic Conditions: Quarterly Progress Reports	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, 2023:

Questioned costs, as previously reported	\$ -
Questioned costs for fiscal year 2023 Single Audit	<u>-</u>
Unresolved questions cost on September 30, 2023	<u><u>\$ -</u></u>



Commonwealth Utilities Corporation

Office of the Chief Financial Officer



September 19, 2025

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

Subject: Schedule of Findings and Questioned Costs for the years ending September 30, 2023

Dear Mr. Burger:

Please see below for CUC’s responses to the findings regarding CUC FY 2023 Audit:

Finding No. 2023-001

Condition:

a. For 2 or 8% of the 24 procurement contracts tested, the required public notice period of 30 calendar days was not met.

<u>Contract Number</u>	<u>Days of Public Notice</u>
CUC-PD-23-C036	27
CUC-WW-23-C011	28

b. For 2 or 8% of the 24 procurement contracts tested, bidding periods were shorter than the required 30 calendar days.

<u>Contract Number</u>
CUC-PD-23-C036 CUC-WW-23-C011

Recommendation:

CUC should strengthen its internal control procedures for procurement by implementing a more rigorous process to ensure compliance with procurement policies



Commonwealth Utilities Corporation

Office of the Chief Financial Officer



CUC Response:

CUC accepts the finding.

Management's Corrective Action Plan:

CUC Procurement Division will ensure all CUC Competitive Bid Solicitation Notice (IFB, RFP, RAESP-Macro Purchases) are advertised via: Print no less than 30 calendar days via cross checking duration period before commencement of advertisement. Advertisement via electronic media/CUC Webpage.

Person Responsible: Administrative Coordinator (Procurement)

Deadline: Please note, there is already a policy in place to ensure the 30-day period is complied with.

In addition, CUC Procurement Division may opt to increase the advertising period from the minimum 30 calendar days to 35 calendar days via print media. All electronic media advertisements via CUC's Webpage run 30 days consecutively.

Finding No. 2023-002 (Coronavirus State and Local Fiscal Recovery Funds, 21.027)

Condition:

For all four quarters, CUC prepared the quarterly reports; however, they could not confirm that the reports were submitted on time

Recommendation:

CUC should implement the following corrective actions:

1. Establish and enforce internal controls to ensure timely preparation and submission of monthly progress reports.
2. Assign responsibility to a designated compliance officer to monitor and verify compliance with reporting requirements.
3. Develop a tracking system to document the submission and review of reports.
4. Provide training to project managers and relevant personnel on reporting obligations under 2 CFR 200.328 and 31 CFR 35.4(c).
5. Implement corrective action steps for future noncompliance, including escalation procedures for late or missing reports



Commonwealth Utilities Corporation Office of the Chief Financial Officer



CUC Response:

CUC agrees with the findings.

Management's Corrective Action Plan:

Person Responsible: Fiscal Administrator (Grants and Budget)

Deadline: CUC agrees to develop and create a more refined tracking system and staffing for compliance purposes. A tracking system is in place as of this writing.

Sincerely,

A handwritten signature in blue ink, appearing to read "Betty Terlaje".

Betty Terlaje
Chief Financial Officer