

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, 2024 and 2023

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, 2024 and 2023
(With Independent Auditor's Report Thereon)

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1930 Picarro Ln
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Saipan, MP 96950

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Report on the Audit of Financial Statements in Accordance with the Uniform Guidance
Years ended September 30, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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

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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.

Bryan Comer & Associates

Saipan, MP

April 2, 2026

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Management's Discussion and Analysis
September 30, 2024 and 2023

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, 2024 with comparisons to the prior fiscal year ended September 30, 2023. We encourage readers to consider the information presented here in conjunction with the financial statements, related notes and supplementary information (pages 10 through 50).

	2024	2023	\$ Change	% Change
Assets and Deferred Outflows of Resources				
Current unrestricted assets	\$ 67,691,978	\$ 72,740,594	\$ (5,048,616)	-6.9%
Current restricted assets	30,094,183	33,115,073	(3,020,890)	-9.1%
Noncurrent assets	<u>127,364,595</u>	<u>124,635,813</u>	<u>2,728,782</u>	2.2%
	<u>\$ 225,150,756</u>	<u>\$ 230,491,480</u>	<u>\$ (5,340,724)</u>	-2.3%
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities	\$ 32,497,887	\$ 44,635,991	\$ (12,138,104)	-27.2%
Noncurrent liabilities	14,259,260	18,685,585	(4,426,325)	-23.7%
Deferred inflows of resources	6,576,676	2,960,621	3,616,055	N/A
Net investment in capital assets	127,364,595	124,635,813	2,728,782	2.2%
Restricted	45,000,000	45,000,000	-	0.0%
Unrestricted	<u>(547,662)</u>	<u>(5,426,530)</u>	<u>4,878,868</u>	-89.9%
	<u>\$ 225,150,756</u>	<u>\$ 230,491,480</u>	<u>\$ (5,340,724)</u>	-2.3%
Revenues, Expenses and Changes in Net Position				
	2024	2023	\$ Change	% Change
Net operating revenues	\$ 103,420,600	\$ 101,296,283	\$ 2,124,317	2.1%
Operating expenses	<u>117,023,190</u>	<u>116,145,499</u>	<u>877,691</u>	0.8%
Operating loss	(13,602,590)	(14,849,216)	1,246,626	-8.4%
Non-operating revenues (expense), net	<u>5,506,224</u>	<u>(3,522,792)</u>	<u>(1,246,626)</u>	35.4%
Income (loss) before capital contributions and federal grant	(8,096,366)	(18,372,008)	(1,246,626)	6.8%
Capital contributions and federal grant	<u>15,748,235</u>	<u>14,350,739</u>	<u>1,246,626</u>	8.7%
Change in net position	7,651,869	(4,021,269)	(1,246,626)	31.0%
Net position at beginning of year	164,209,283	178,144,697	1,246,626	0.7%
Adjustments to net position at beginning of year	<u>(44,219)</u>	<u>(9,914,145)</u>	<u>1,246,626</u>	0.0%
Net position at end of year	<u>\$ 171,816,933</u>	<u>\$ 164,209,283</u>	<u>\$ 1,246,626</u>	0.8%

For the year ended September 30, 2024, CUC incurred a loss from operations of about \$13.6 million as compared to a loss of \$14.8 million for the year ended September 30, 2023.

COMMONWEALTH UTILITIES CORPORATION

(A Component of the CNMI Government)

Management's Discussion and Analysis, continued

September 30, 2024 and 2023

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, 2024 and 2023

Other Information

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

ANALYSIS OF BASIC FINANCIAL STATEMENTS

Condensed Statements of Revenues, Expenses and Change in Net Position

	2024	2023
Operating revenues, net	\$ 103,420,600	\$ 101,296,283
Operating expenses	<u>117,023,190</u>	<u>116,145,499</u>
Loss from operations	(13,602,590)	(14,849,216)
Nonoperating revenues (expenses), net	9,122,278	680,263
Change in recovery of fuel costs	<u>(3,616,054)</u>	<u>(4,203,055)</u>
Net earnings (loss) before capital contributions and federal grants	(8,096,366)	(18,372,008)
Capital contributions and federal grants	<u>15,748,235</u>	<u>14,350,739</u>
Change in net position	7,651,869	(4,021,269)
Adjustment to retained earnings	(44,219)	(9,914,145)
Net position, beginning	<u>164,209,283</u>	<u>178,144,697</u>
Net position, ending	<u>\$ 171,816,933</u>	<u>\$ 164,209,283</u>

CUC's loss from its operations for the fiscal year ended September 30, 2024 is \$13.6 million.

COMMONWEALTH UTILITIES CORPORATION

(A Component of the CNMI Government)

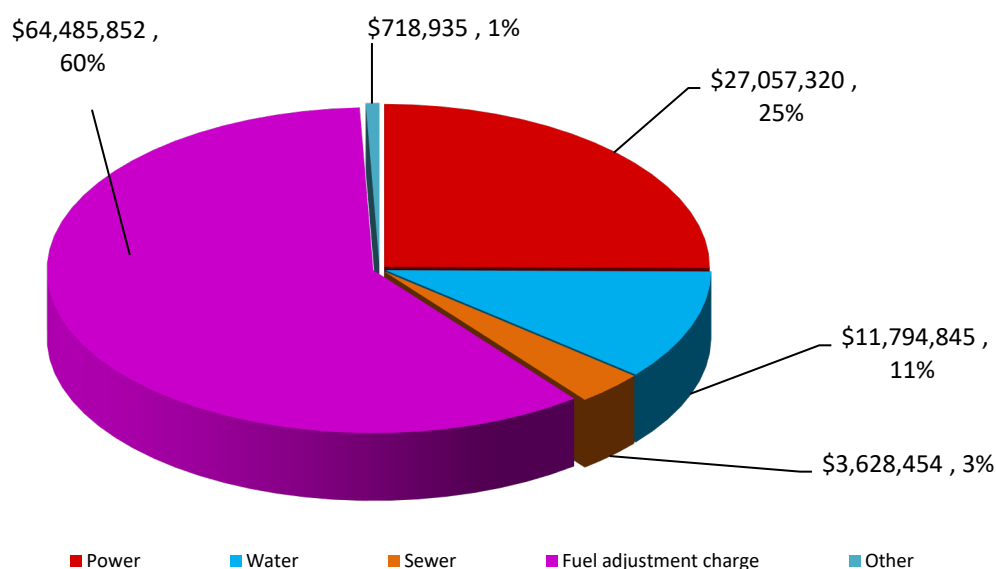
Management's Discussion and Analysis, continued

September 30, 2024 and 2023

Financial Highlights

Operating Revenues

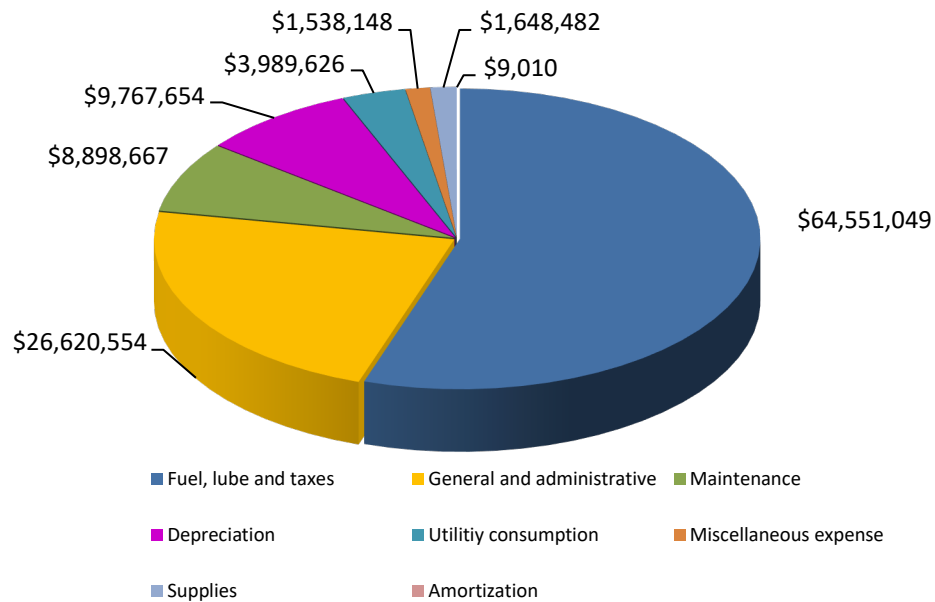
	2024	2023	\$ Change	% Change
Power	\$ 27,057,320	\$ 25,264,719	\$ 1,792,601	7.1%
Water	\$ 11,794,845	\$ 12,824,471	\$ (1,029,626)	-8.0%
Sewer	\$ 3,628,454	\$ 4,449,450	\$ (820,996)	-18.5%
Fuel adjustment charge	\$ 64,485,852	\$ 67,497,480	\$ (3,011,628)	-4.5%
Other	\$ 718,935	\$ 874,513	\$ (155,578)	-17.8%
Total	<u>\$ 107,685,406</u>	<u>\$ 110,910,633</u>	<u>\$ (3,225,227)</u>	-2.9%



COMMONWEALTH UTILITIES CORPORATION
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Management's Discussion and Analysis, continued
September 30, 2024 and 2023

Operating Expenses

	2024	2023	\$ Change	% Change
Fuel, lube and taxes	\$ 64,551,049	\$ 67,296,355	\$ (2,745,306)	-4.1%
General and administrative	\$ 26,620,554	\$ 23,611,309	\$ 3,009,245	12.7%
Maintenance	\$ 8,898,667	\$ 8,616,238	\$ 282,429	3.3%
Depreciation	\$ 9,767,654	\$ 9,408,840	\$ 358,814	3.8%
Utility consumption	\$ 3,989,626	\$ 4,436,710	\$ (447,084)	-10.1%
Miscellaneous expense	\$ 1,538,148	\$ 1,485,581	\$ 52,567	3.5%
Supplies	\$ 1,648,482	\$ 1,281,456	\$ 367,026	28.6%
Amortization	\$ 9,010	\$ 9,010	\$ -	0.0%
Total	<u>\$ 117,023,190</u>	<u>\$ 116,145,499</u>	<u>\$ 877,691</u>	0.8%



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

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

Management's Discussion and Analysis, continued

September 30, 2024 and 2023

Capital Assets

On September 30, 2024, CUC had \$127,364,595 invested in capital assets, net of depreciation where applicable, including electric plant, water plant, sewer plant, administrative equipment, construction in progress, and leased assets.

	2024	2023
Utility plant in service		
Electric plant	\$ 183,427,434	\$ 180,831,638
Water plant	99,137,929	91,698,865
Sewer plant	62,954,941	58,972,719
Administrative equipment	<u>4,047,598</u>	<u>4,165,887</u>
	349,567,902	335,669,109
Accumulated depreciation	<u>(251,210,233)</u>	<u>(243,232,983)</u>
Depreciable assets, net	98,357,669	92,436,126
Right-to-use leased asset		
Land	360,408	360,408
Accumulated amortization	<u>(30,033)</u>	<u>(21,023)</u>
	330,375	339,385
Construction work-in progress	<u>28,676,551</u>	<u>31,860,302</u>
Capital assets, net	<u>\$ 127,364,595</u>	<u>\$ 124,635,813</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 2024 and 2023 are as follows:

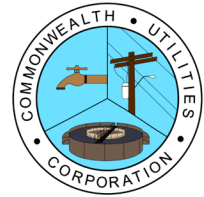
	2024	2023
U.S. Environmental Protection Agency	\$ -	\$ 65,625
U.S. Coast Guard	-	246,875
Current maturities	<u>312,500</u>	<u>375,000</u>
Long-term debt	<u>\$ 312,500</u>	<u>\$ 687,500</u>

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



COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)



MANAGEMENT'S DISCUSSION & ANALYSIS

Years Ended September 30, 2024 and 2023

EXECUTIVE OVERVIEW AND OUTLOOK

The Commonwealth Utilities Corporation ("CUC") is an autonomous public corporation of the Commonwealth of the Northern Mariana Islands ("CNMI") responsible with providing electric power, water, and wastewater services to the islands of Saipan, Tinian, and Rota. CUC operates outside the annual legislative appropriations process and is governed by its Board of Directors in accordance with applicable CNMI law, while remaining subject to the regulatory, fiduciary, operational, and public accountability expectations applicable to a governmental utility enterprise. Management presents this discussion and analysis to assist readers in understanding the Corporation's financial statements, major operational developments, capital priorities, and known conditions affecting future performance for the fiscal year ended September 30, 2024.

This Executive Overview and Outlook report is a part of the Management's Discussion and Analysis ("MD&A") and should be read in conjunction with the audited financial statements and accompanying notes. The intent of this section is to provide a narrative explanation of the Corporation's financial position and results of operations, to highlight significant events and trends occurring during Fiscal Year 2024 (FY 2024), and to identify conditions that management believes are relevant to understanding CUC's operational outlook. Although this report contains forward-looking statements regarding planned capital improvements, operational initiatives, regulatory compliance efforts, and expected system needs, such statements are based on information presently available to management and remain subject to risks and uncertainties inherent in utility operations, federal funding availability, procurement lead times, workforce constraints, fuel price volatility, weather events, and other external factors.

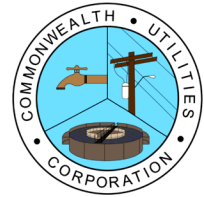
CUC continues to operate in an environment shaped by legacy infrastructure, federal compliance obligations, insular logistics, exposure to typhoon and drought conditions, volatile fuel costs, and increasing expectations for utility modernization and resilience. A substantial portion of the Corporation's infrastructure, particularly within electric generation, water distribution, and wastewater collection and treatment, has exceeded or is approaching its originally intended service life. As a result, management's focus in FY 2024 remained centered on maintaining continuity of operations, preserving public health and safety, improving reliability, advancing capital reinvestment, and strengthening administrative and financial controls needed to support a modern utility enterprise.

Since the 2009 restructuring of CUC and the implementation of court-directed and federally supported corrective actions, the Corporation has made measurable progress in organizational stabilization, infrastructure planning, and utility operations. Management believes that the improvements achieved over the last several years have established a stronger baseline for capital planning, environmental compliance, grant administration, and systemwide operational discipline. FY 2024 continued that trajectory. The Corporation's priorities during the year included sustaining generation reliability, hardening transmission and distribution assets, reducing water system losses, maintaining wastewater treatment capability,



COMMONWEALTH UTILITIES CORPORATION

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MANAGEMENT'S DISCUSSION & ANALYSIS

Years Ended September 30, 2024 and 2023

strengthening internal coordination across divisions, and positioning the utility to respond to both community needs and anticipated strategic growth pressures across the CNMI.

Management also recognizes that CUC's operating environment is evolving. Economic development, tourism recovery, regional infrastructure activity, and defense-related planning in the Marianas continue to influence long-range utility demand assumptions. On Tinian in particular, the Corporation must remain prepared for the possibility of future service extensions or capacity upgrades associated with local development and broader federal activity. Accordingly, CUC's outlook for fiscal year 2025 and beyond is not limited to maintaining existing assets; it also includes prudent planning for capacity, resilience, compliance, and operational readiness under a range of future service scenarios.

REGULATORY AND GOVERNANCE CONTEXT

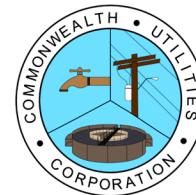
CUC remains subject to extensive regulatory and compliance requirements associated with drinking water, wastewater, environmental protection, occupational safety, procurement, grant administration, and governmental financial reporting. The Corporation continues to operate in a context shaped by historical enforcement actions and stipulated corrective measures that required improvements in planning, infrastructure prioritization, environmental compliance, and organizational capacity. Management's objective in FY 2024 was not only to sustain day-to-day compliance efforts, but also to strengthen the institutional systems that support long-term compliance, including documentation practices, project oversight, maintenance planning, procurement administration, and interdivisional coordination.

Governmental utility operations in an island environment necessarily involve heightened risk exposure. CUC must maintain continuity of service despite long procurement lead times, specialized labor shortages, dependence on imported materials and fuel, severe weather threats, and aging infrastructure. As such, management views governance and internal control as critical utility functions rather than purely administrative requirements. During FY 2024, CUC continued to emphasize financial accountability, contract oversight, segregation of duties where feasible, inventory and warehouse controls, capital project tracking, and management review of operating performance. While management acknowledges that continued improvement is necessary, especially as the volume and complexity of capital projects increase, the Corporation believes that FY 2024 reflected continued progress toward a more disciplined and auditable operating environment.

In addition, CUC continued to rely on federal grant and program funding to support significant infrastructure rehabilitation and system modernization. The use of federal assistance requires timely reporting, eligible cost documentation, procurement compliance, environmental review coordination, and close management of project schedules and deliverables. Management has therefore continued to integrate operational planning with financial oversight so that grant-funded projects can be advanced in a manner consistent with both program objectives and audit expectations.



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



MANAGEMENT'S DISCUSSION & ANALYSIS Years Ended September 30, 2024 and 2023

STRATEGIC PRIORITIES FOR FISCAL YEAR 2024

Management's strategic focus during FY 2024 was guided by four broad objectives: (1) preserve core utility service reliability; (2) modernize critical infrastructure and reduce exposure to service interruption; (3) strengthen financial and administrative systems to support accountability and capital delivery; and (4) position the Corporation to meet long-term public utility needs in a changing regional environment. These objectives informed budgetary decisions, capital planning, project sequencing, workforce deployment, and executive oversight throughout the year.

Within the electric utility, CUC continued to prioritize generation reliability, transmission and distribution hardening, reserve capacity management, and evaluation of cleaner and more resilient energy pathways. Within the water utility, management continued to focus on reducing non-revenue water, improving storage and distribution performance, and protecting groundwater supply reliability. Within wastewater operations, priority remained on maintaining treatment functionality, reducing collection system failures, and advancing upgrades needed to support compliance and future growth.

In parallel with those operational goals, management also continued efforts to improve the Corporation's administrative capacity. These efforts included strengthening procurement planning, standardizing project monitoring, improving inventory and material accountability, maintaining regular management reporting, and supporting workforce development in technically critical areas. Management believes that these administrative functions are essential enabling conditions for a utility of CUC's size and complexity and are directly relevant to government audit review because they influence the Corporation's ability to execute projects, document expenditures, and demonstrate stewardship of public resources.

DISCUSSION OF DIVISION RESULTS

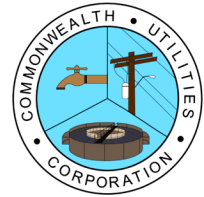
Administration

CUC's Administration continued to play a central role in FY 2024 by supporting governance, finance, procurement, human resources, information management, risk oversight, and executive coordination across the utility. As CUC's capital and compliance obligations continue to expand, the strength of the administrative platform remains a key determinant of whether the Corporation can successfully manage growth while maintaining accountability. For that reason, management placed sustained emphasis on processes that improve documentation quality, timeliness of review, and transparency of decision-making. During FY 2024, management continued to reinforce expectations related to internal reporting, approval controls, inventory accountability, contract administration, and project tracking. These efforts were intended to improve audit readiness and reduce the operational inefficiencies that arise when documentation, purchasing, or interdepartmental communication is inconsistent. The Corporation also continued to rely on regular management meetings and board reporting to identify operational constraints early and to align financial resources with the most urgent service delivery needs.



COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)



MANAGEMENT'S DISCUSSION & ANALYSIS

Years Ended September 30, 2024 and 2023

Management believes that stronger administrative systems are especially important for an insular utility enterprise because service continuity is closely tied to procurement discipline, warehouse readiness, equipment tracking, and workforce coordination. In that regard, administrative improvements made in FY 2024 supported not only compliance and finance functions, but also the Corporation's ability to keep parts, materials, and field resources available for critical repair and maintenance work.

Power Generation ("PG")

The Power Generation Division remains the foundation of economic activity and public service continuity across the CNMI. Without reliable electric generation, the Commonwealth's homes, schools, healthcare facilities, businesses, tourism assets, water systems, wastewater systems, and government operations are placed at significant risk. Management therefore continued to assign the highest operational priority to generation reliability during FY 2024.

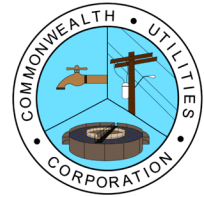
CUC's generation fleet on Saipan continues to include aging diesel-fired assets that require intensive maintenance attention and careful operating discipline. While these units have continued to provide essential service, management recognizes that aging equipment necessarily increases exposure to forced outages, reduced efficiency, extended repair durations, and higher lifecycle costs. FY 2024 therefore required a balanced approach: preserving near-term reliability through disciplined maintenance while also advancing planning for equipment replacement, reserve margin improvement, and future diversification of the generation portfolio.

Throughout the year, PG focused on preventive and corrective maintenance, parts procurement, fuel system reliability, and operational coordination with transmission and distribution. Management continued to evaluate the condition and performance of major generation assets and to prioritize work on units most critical to maintaining dependable base-load service. Reserve capacity management remained an important concern, as utility reliability in an islanded grid depends not only on meeting average load, but on maintaining sufficient capacity to absorb equipment failures, weather disruptions, and maintenance outages without extended customer interruption.

Management also continued to assess longer-range resource options, including generation replacement strategies, fuel flexibility, battery energy storage integration, and renewable energy support systems. These planning activities are necessary to reduce long-term operating risk, limit exposure to imported fuel volatility, and support the Corporation's objective of improving resiliency. While not all initiatives had advanced to construction during FY 2024, the Corporation believes that continued resource planning and staged modernization are necessary to maintain service reliability and fiscal sustainability in future years.



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



MANAGEMENT'S DISCUSSION & ANALYSIS Years Ended September 30, 2024 and 2023

Power Transmission and Distribution ("T&D")

The Transmission and Distribution Division continued its work in FY 2024 to strengthen the delivery system that connects generation resources to customers. In an island environment exposed to typhoons, salt air, corrosion, and vegetation growth, the distribution system requires sustained reinvestment and routine maintenance to reduce outage frequency and improve restoration time. Management therefore continued to support line hardening, pole replacement, vegetation management, protective device maintenance, and field training as core reliability measures.

The Corporation has benefited in recent years from system hardening efforts, particularly the replacement of vulnerable wooden poles with reinforced concrete poles in critical areas. Management considers this work to be one of the most visible and effective resilience improvements made since prior storm recovery periods. During FY 2024, T&D continued to build on that progress through targeted replacements and maintenance actions intended to reduce the consequences of severe weather and everyday equipment deterioration.

CUC also continued to place importance on field safety, crew coordination, and technical development of line personnel. The utility's ability to restore service quickly and safely depends on a trained field workforce that can respond effectively during both routine operations and emergency conditions. Accordingly, management views continued lineman development and certifications, job planning, equipment readiness, and work-order discipline as important components of operational control as well as workforce sustainability.

Water Operations

Water Operations continued to make progress in FY 2024 toward improving supply reliability, distribution performance, and system management. The Corporation's water system has historically been challenged by leakage, storage constraints, infrastructure deterioration, groundwater vulnerabilities, and the physical difficulties of serving varied elevations across the islands. Management therefore maintained a strong emphasis on reducing water losses, preserving production capacity, improving storage reliability, and advancing system rehabilitation where funding and operational conditions allowed.

The reduction of non-revenue water remains one of the Corporation's most important long-term financial and operational objectives. Every gallon of water lost through leakage, poor metering performance, unauthorized use, or system inefficiency represents both a service and fiscal burden. Management continued in FY 2024 to support leak detection, main and service line replacement, valve and pressure management improvements, and more disciplined maintenance attention to storage and distribution assets. Although system losses remain a challenge, management believes that sustained infrastructure reinvestment and operational monitoring continue to move the utility toward a more efficient and reliable water system.



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



MANAGEMENT'S DISCUSSION & ANALYSIS Years Ended September 30, 2024 and 2023

CUC also continued to focus on source reliability, well field management, storage tank functionality, and water quality considerations. In an island aquifer setting, production decisions must be balanced against long-term resource protection and water quality impacts. Management therefore considers water operations to be both an engineering and stewardship function. Ongoing attention to wells, pumps, storage, chlorination, pressure zones, perfluoroalkyl and polyfluoroalkyl substances (PFAS) mediation and emergency readiness remained a priority throughout FY 2024.

Management further notes that a reliable electric system is inseparable from reliable water service. Water production and distribution are directly affected by generation and distribution conditions, and utility-wide planning must therefore account for these interdependencies. Cross-divisional coordination remained important during the year in order to support pumping reliability, emergency response, and maintenance scheduling.

Wastewater Operations

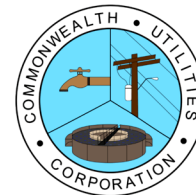
Wastewater Operations remained a critical public health and environmental protection function during FY 2024. Although the wastewater system is less visible to the public than electric or water service, its reliability is essential to regulatory compliance, environmental stewardship, tourism support, and quality of life. CUC continued to operate collection, pumping, and treatment assets under the constraints of aging infrastructure, inflow and infiltration, corrosive operating environments, and the need for phased capital reinvestment.

During the year, management continued to prioritize treatment plant functionality, lift station reliability, sewer main maintenance, and planning for capacity and condition improvements. Collection system deterioration and inflow and infiltration remain significant issues because they consume treatment capacity, increase pumping burdens, contribute to overflows, and elevate operating costs. Management therefore continues to regard sewer system rehabilitation as both a compliance priority and a prudent long-term financial strategy.

CUC's wastewater treatment facilities on Saipan require ongoing maintenance and staged upgrades to preserve dependable operations and prepare for future demand. FY 2024 included continued attention to equipment condition, solids handling, screening, pumping reliability, and the need for future rehabilitation or replacement of critical treatment components. Management believes that continued investment in wastewater infrastructure is necessary not only to address current operational risks but also to ensure that the utility can responsibly accommodate future residential, commercial, tourism, and strategic development pressures.



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



MANAGEMENT'S DISCUSSION & ANALYSIS Years Ended September 30, 2024 and 2023

Tinian – Power and Water

Tinian continued to represent both a stable operating area and a strategic planning focus for CUC during FY 2024. The island has available utility capacity relative to current demand, but management recognizes that future demand could change materially depending on local development, infrastructure investment, and defense-related activity in the Marianas. As a result, CUC's work on Tinian involves not only routine operations and maintenance, but also readiness planning for possible service expansion or system upgrades. During FY 2024, the Corporation continued to maintain its sole water well, pumping systems, and electric infrastructure on Tinian while monitoring conditions that could affect future utility planning. Tinian's importance to the CNMI and the broader regional defense posture means that utility planning must remain responsive, coordinated, and technically grounded. Management believes that prudent planning in advance of growth is preferable to reactive expansion after service needs materialize. Accordingly, CUC continued to evaluate how existing assets, reserve capacity, and future capital projects may need to align with emerging long-range conditions on the island.

Rota – Power and Water

On Rota, CUC continued to maintain electric and water service with attention to the island's distinct infrastructure profile and customer needs. Rota's water system benefits from natural source conditions that differ from Saipan and Tinian's groundwater production and distribution challenges, yet the island still requires sustained maintenance of storage, piping, pumping, and backup capability. FY 2024 included ongoing inspection, maintenance, and planning actions intended to preserve reliable service and improve operational readiness.

Rota's electric system likewise requires continued attention to generation reliability, parts availability, and distribution hardening. Because island utility systems operate with limited redundancy and constrained local inventory, management recognizes that even modest equipment failures can create outsized service risks if not addressed proactively. Accordingly, CUC continued to emphasize preventive maintenance, emergency preparedness, and practical capital planning for Rota's utility assets.

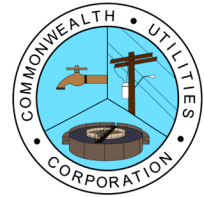
FINANCIAL CONDITION, CAPITAL INVESTMENT, AND AUDIT-RELATED CONSIDERATIONS

CUC's financial condition in FY 2024 continued to reflect the realities of operating a public utility enterprise in an island environment: significant fixed infrastructure demands, sensitivity to fuel costs, dependence on customer collections, and continued reliance on external funding sources for major capital rehabilitation. Management's primary financial objective remained the preservation of liquidity sufficient to sustain utility operations while directing available resources toward the highest-priority repair, maintenance, and capital needs.



COMMONWEALTH UTILITIES CORPORATION

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MANAGEMENT'S DISCUSSION & ANALYSIS

Years Ended September 30, 2024 and 2023

Capital investment remains essential to the Corporation's long-term sustainability. Management continued in FY 2024 to pursue and administer projects related to generation reliability, distribution hardening, water system rehabilitation, wastewater system upgrades, and system monitoring improvements. Federal funding continues to play a major role in enabling these improvements. At the same time, management recognizes that acceptance of federal assistance increases the need for disciplined procurement, documentation, contract administration, and grant compliance. These areas remain important subjects for management oversight and for government audit review.

From an audit and financial reporting perspective, management continued to emphasize the importance of timely reconciliations, supportable expenditure documentation, board visibility into financial performance, and monitoring of capital outlays relative to approved funding sources. Management also continued to focus on inventory accountability and warehouse management because weak control over materials can adversely affect both operations and financial reporting. While management acknowledges that utility modernization is ongoing and that resource constraints remain real, the Corporation believes that FY 2024 reflected continuing progress in aligning operational execution with auditable financial stewardship.

Management further notes that utility rate sufficiency, customer affordability, deferred capital needs, and future debt or financing options remain important long-term policy matters. The Corporation must continue balancing the requirement to provide reliable and compliant utility service with the economic realities of the communities it serves. This balance will remain a central issue in future planning and may influence the pace and sequencing of capital improvements in the years ahead.

INTERNAL CONTROL, RISK, AND OPERATIONAL READINESS

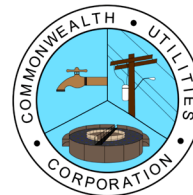
Management recognizes that a public utility's operational risks are inseparable from its control environment. In FY 2024, CUC continued to strengthen practical controls intended to reduce the likelihood of service interruption, financial misstatement, noncompliance, and project delivery failure. These controls included management review of major procurement actions, closer coordination between finance and operating divisions, warehouse and equipment accountability measures, oversight of project progress, and continued emphasis on safety and work-order discipline in field operations.

The Corporation remains exposed to several significant risks, including severe weather events, generation asset failure, fuel supply disruption, corrosion and age-related infrastructure deterioration, labor scarcity, and the administrative burden associated with multiple concurrent grant-funded projects. Management's response to these risks has been to prioritize resilience, preventive maintenance, redundancy where feasible, documentation, and staged capital reinvestment. Although no control environment can eliminate all utility risk, management believes that a disciplined and continuously improving system of oversight materially enhances CUC's capacity to respond to operational and financial challenges.



COMMONWEALTH UTILITIES CORPORATION

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MANAGEMENT'S DISCUSSION & ANALYSIS

Years Ended September 30, 2024 and 2023

FUTURE OUTLOOK

Looking forward, management expects Fiscal Year 2025 (FY 2025) and subsequent periods to remain focused on resilience, modernization, and readiness. CUC's long-term direction includes continued work to replace or rehabilitate aging infrastructure, expand digital monitoring and control capability, improve reserve capacity and system redundancy, reduce water losses, strengthen wastewater treatment reliability, and support energy transition strategies that reduce long-term exposure to imported fuel costs. These objectives are ambitious, but management believes they are necessary if the Corporation is to meet the standards expected of a modern public utility serving the CNMI.

Management also expects external conditions to continue influencing utility planning. These include inflationary pressures on materials and equipment, procurement lead times, federal program requirements, environmental compliance obligations, and the potential effects of future economic and strategic development across the Marianas. In this context, CUC's planning approach must remain disciplined, adaptable, and grounded in asset condition, service reliability, public health protection, and financial stewardship.

Notwithstanding these challenges, management believes that CUC entered FY 2025 with a clearer strategic direction, stronger appreciation of risk, and continued momentum in infrastructure and organizational improvement. The Corporation's mission remains unchanged: to provide reliable, safe, and sustainable utility services to the people of the Commonwealth while exercising responsible stewardship over the public assets and resources entrusted to it.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, customers, creditors, grantor agencies, and other interested parties with a general overview of the Commonwealth Utilities Corporation's finances and operations and to demonstrate accountability for the resources it manages. Questions concerning this report or requests for additional financial information should be directed to:

Commonwealth Utilities Corporation

Attn: Chief Financial Officer

P.O. Box 501220

Saipan, MP 96950

Phone: (670) 664-4282

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)

Statements of Net Position
As of September 30, 2024 and 2023

	2024	2023
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents - appropriated	\$ 22,826,341	25,168,780
Cash and cash equivalents - restricted	30,094,183	33,115,073
Total cash and cash equivalents	52,920,524	58,283,853
Accounts receivable - utility, net	11,626,059	14,250,701
Due from grantor agencies	7,551,009	5,786,721
Inventory	21,978,625	24,492,606
Notes receivable, net	96,163	125,016
Prepayments and other assets, net	3,613,781	2,916,770
Total current assets	97,786,161	105,855,667
Non-current assets:		
Depreciable utility plant, net of accumulated depreciation	98,357,669	92,436,126
Construction-in-progress	28,676,551	31,860,302
Right-to-use asset, net	330,375	339,385
Total non-current assets	127,364,595	124,635,813
Total assets	<u>\$ 225,150,756</u>	<u>230,491,480</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued liabilities	8,956,208	11,774,526
Due to primary government - OPA fee	8,148,213	18,507,949
Compensated absences	1,467,934	1,374,632
Security deposits, including accrued interest	13,611,144	12,602,076
Environmental remediation liability, current portion	312,500	375,000
Operating lease liability, current portion	1,888	1,808
Total current liabilities	32,497,887	44,635,991
Non-current liabilities:		
Retirement contributions payable	2,590,200	3,231,607
Unearned local grants	10,291,080	13,573,407
Unearned revenue	486,497	494,700
Environmental remediation liability, non-current portion	-	312,500
Dividends payable	540,000	720,000
Operating lease liability, non-current portion	351,483	353,371
Total non-current liabilities	14,259,260	18,685,585
Total liabilities	46,757,147	63,321,576
Deferred inflows of resources:		
Overbilled fuel cost recovery	6,576,676	2,960,621
Total deferred inflows of resources	6,576,676	2,960,621
Net position:		
Net investment in capital assets	127,364,595	124,635,813
Restricted	45,000,000	45,000,000
Unrestricted	(547,662)	(5,426,530)
Total net position	171,816,933	164,209,283
Total liabilities and net position	<u>\$ 225,150,756</u>	<u>230,491,480</u>

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, 2024 and 2023

	2024	2023
Operating revenues:		
Power	\$ 27,057,320	25,264,719
Water	11,794,845	12,824,471
Sewer	3,628,454	4,449,450
Fuel adjustment charge	64,485,852	67,497,480
Other revenue	718,935	874,475
	<u>107,685,406</u>	<u>110,910,595</u>
Provisions for uncollectible accounts	<u>(4,264,806)</u>	<u>(9,614,350)</u>
Net operating revenues	103,420,600	101,296,245
Operating expenses:		
Fuel, lube and taxes	64,551,049	67,296,355
General and administrative	26,620,554	23,611,309
Maintenance	8,898,667	8,616,238
Depreciation	9,767,654	9,408,840
Utility consumption	3,989,626	4,436,710
Miscellaneous expense	1,538,148	1,485,543
Supplies	1,648,482	1,281,456
Amortization	9,010	9,010
	<u>117,023,190</u>	<u>116,145,461</u>
Total operating expenses	<u>117,023,190</u>	<u>116,145,461</u>
Operating loss	(13,602,590)	(14,849,216)
Non-operating revenues (expenses):		
Interest income and late charges	282,855	2,398,313
Miscellaneous income	661,564	508,777
Recovery of bad debts	10,336,435	-
Interest expense	(15,443)	(31,115)
Settlement	(123,868)	(388,311)
Contributions to primary government - OPA fee	(1,119,265)	(907,401)
Dividends	(900,000)	(900,000)
Change in deferred fuel cost	<u>(3,616,054)</u>	<u>(4,203,055)</u>
Total non-operating expenses	<u>5,506,224</u>	<u>(3,522,792)</u>
Loss before capital contributions and federal grants	(8,096,366)	(18,372,008)
Capital contributions and federal grants	<u>15,748,235</u>	<u>14,350,739</u>
Change in net position	7,651,869	(4,021,269)
Net position at the beginning of the year	164,209,283	178,144,697
Adjustments to net position at the beginning of the year	<u>(44,219)</u>	<u>(9,914,145)</u>
Net position at the end of the year	<u>\$ 171,816,933</u>	<u>164,209,283</u>

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

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)

Statements of Cash Flows
For the Years Ended September 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash received from customers	\$ 118,348,574	105,528,523
Cash payments to suppliers for goods and services	(104,213,754)	(90,779,471)
Cash payments to employees for services	(19,351,755)	(11,255,766)
Net cash provided by (used for) operating activities	(5,216,935)	3,493,286
Cash flows from non-capital financing activities:		
Dividend payments	(1,080,000)	(1,080,000)
Settlement payments	(123,868)	(388,311)
Principal payments for lease liability	(1,808)	(1,731)
Principal payments for environmental liability	(375,000)	(375,000)
Net cash used for non-capital financing activities	(1,580,676)	(1,845,042)
Cash flows from capital and related financing activities:		
Capital contributions received, net	13,983,947	13,887,706
Acquisition and construction of capital assets	(12,549,665)	(20,881,926)
Net cash provided by (used in) capital and related financing activities	1,434,282	(6,994,220)
Net change in cash and cash equivalents	(5,363,329)	(5,345,976)
Cash and cash equivalents - unrestricted	-	50,313,804
Cash and cash equivalents - appropriated	25,168,780	-
Cash and cash equivalents - restricted	33,115,073	13,316,025
Balances at the beginning of the year	58,283,853	63,629,829
Cash and cash equivalents - appropriated	22,826,341	45,681,777
Cash and cash equivalents - restricted	30,094,183	12,602,076
Balances at the end of the year	\$ 52,920,524	58,283,853

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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Operating loss	\$ (13,602,590)	(14,849,216)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Bad debts	4,264,806	9,614,350
Depreciation	9,767,654	9,408,840
Amortization	9,010	9,010
Interest income and late charges	282,855	2,398,313
Miscellaneous income	661,564	508,777
Change in deferred fuel cost	(3,616,054)	(4,203,055)
Interest expense	(15,443)	(31,115)
Decrease (increase) in operating assets:		
Accounts receivable - utility, net	8,696,271	(8,555,721)
Inventory	2,513,981	979,265
Notes receivable, net	28,853	26,603
Prepayments and other assets, net	(697,011)	(1,204,945)
Unbilled fuel cost recovery	3,616,055	4,203,055
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(2,818,318)	(3,627,493)
Due to primary government - OPA fee	(11,479,001)	7,531,965
Compensated absences	93,302	(230,290)
Security deposits, including accrued interest	1,009,068	271,033
Retirement contributions payable	(641,407)	(250,000)
Unearned local grants	(3,282,327)	1,502,281
Unearned revenue	(8,203)	(8,371)
Net cash provided by (used for) operating activities	<u>\$ (5,216,935)</u>	<u>3,493,286</u>
Supplemental disclosure to the statement of cash flow:		
Interest paid	<u>\$ 15,443</u>	<u>31,115</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, 2024 and 2023

;(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, 2024 and 2023

(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, 2024 and 2023, 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, 2024 and 2023, CUC recorded gross notes receivable of \$129,551 and \$193,884, respectively, and the related allowance of \$33,388 and \$68,868, 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, 2024 and 2023, CUC recorded due from grantor agencies of \$7,551,009 and \$5,786,721, respectively.

COMMONWEALTH UTILITIES CORPORATION

(A Component of the CNMI Government)

Notes to the Financial Statements

September 30, 2024 and 2023

(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, 2024 and 2023.

Prepayments and Other Assets

Payments made to vendors for services that will benefit future periods are recorded as prepayments. As of September 30, 2024 and 2023, CUC recorded prepayments of \$3,366,999 and \$2,707,271, 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 \$23,831 and \$22,045 as of September 30, 2024 and 2023, respectively, and net other receivables of \$222,950 and \$187,454, respectively, both having an allowance of \$721,447 as of September 30, 2024 and 2023, 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.

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

Notes to the Financial Statements

September 30, 2024 and 2023

(2) Summary of Significant Accounting Policies, continuedFuel Cost, continued

In such event, CUC shall change the FAC rate to reflect the higher/lower MOPS price and shall promptly provide calculations and supporting work papers to CPUC. This change shall be 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, 2024 and 2023 are as follows:

<u>September 30, 2024</u>		<u>September 30, 2023</u>	
<u>Effective Date</u>	<u>FAC Rates</u>	<u>Effective Date</u>	<u>FAC Rates</u>
October 1, 2023	\$0.30712	November 1, 2022	\$0.34235
December 1, 2023	\$0.26690	December 1, 2022	\$0.32360
January 1, 2024	\$0.24894	January 1, 2023	\$0.27989
March 1, 2024	\$0.26469	April 1, 2023	\$0.25671
June 1, 2024	\$0.24173	June 1, 2023	\$0.22090
September 1, 2024	\$0.23019	August 1, 2023	\$0.24435
		September 1, 2023	\$0.29174

The unbilled (overbilled) fuel cost recovery at September 30, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
At the beginning of the year	\$ (2,960,621)	1,242,434
Change in the recovery of fuel cost	(3,616,055)	(4,203,055)
At the end of the year	<u>\$ (6,576,676)</u>	<u>(2,960,621)</u>

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, 2024 and 2023

(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, 2024 and 2023 amounted to \$1,467,934 and \$1,374,362, 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, 2024 and 2023, 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, 2024 and 2023, 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.

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September 30, 2024 and 2023

(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 \$104,494, \$158,454 and \$166,121 to the DB Plan during the years ended September 30, 2024, 2023 and 2022, 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.

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(2) Summary of Significant Accounting Policies, continued

Defined Contribution Plan (DC Plan), continued

CUC is required to contribute to each 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, 2024, 2023 and 2022 were \$316,586, \$282,986 and \$277,718, 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, 2024 and 2023 included as receivables in the accompanying financial statements were \$6,476,563 and \$7,537,323, 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 \$10,291,080 and \$486,497, respectively as of September 30, 2024 and \$13,573,407 and \$494,700, respectively, as of September 30, 2023, 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.

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September 30, 2024 and 2023

(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.

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September 30, 2024 and 2023

(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.

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.

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.

COMMONWEALTH UTILITIES CORPORATION

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September 30, 2024 and 2023

(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.

Financial Reporting for Pensions

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, 2024 and 2023 since amounts were not available.

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(2) Summary of Significant Accounting Policies, continued

New Accounting Standards

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 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.

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 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.

COMMONWEALTH UTILITIES CORPORATION

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Notes to the Financial Statements

September 30, 2024 and 2023

(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

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.

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 Management has implemented GASB 100 in September 2024 and has reported the accounting changes and error corrections in the prescribed manner.

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September 30, 2024 and 2023

(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

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.

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.

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September 30, 2024 and 2023

(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

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.

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.

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September 30, 2024 and 2023

(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

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.

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.

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Notes to the Financial Statements

September 30, 2024 and 2023

(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

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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Notes to the Financial Statements

September 30, 2024 and 2023

(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, 2024 and 2023, total cash and cash equivalents were \$52,920,524 and \$58,283,853, respectively, and the corresponding bank balances were \$52,888,924 and \$53,987,356, respectively. Of the bank balance amounts, \$52,748,256 and \$52,572,517 as of September 30, 2024 and 2023, respectively, are maintained in financial institutions subject to FDIC insurance. The uninsured portions are \$52,498,256 and \$52,322,517 as of September 30, 2024, and 2023, 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 \$30,094,183 and \$33,115,073 at September 30, 2024 and 2023, respectively, pertain to customer deposits.

(4) Accounts Receivable – Utility

Accounts receivable - utility as of September 30, 2024 and 2023 are presented below:

	<u>2024</u>	<u>2023</u>
By customer classification:		
Billed:		
Commercial	5,386,157	5,459,554
Residential	7,999,539	7,338,286
Government	37,427,805	43,580,695
Unbilled and disputed	<u>16,281,243</u>	<u>19,412,480</u>
Accounts receivable	67,094,744	75,791,015
Allowance for uncollectible accounts	<u>(55,468,685)</u>	<u>(61,540,314)</u>
Accounts receivable, net	<u>\$ 11,626,059</u>	<u>14,250,701</u>

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Notes to the Financial Statements

September 30, 2024 and 2023

(4) Accounts Receivable – Utility, continued

By location:

Saipan:

Commercial	\$ 3,604,958	3,729,974
Residential	7,312,408	6,776,658
Government	35,186,335	39,331,243
	<u>46,103,701</u>	<u>49,837,875</u>

Tinian:

Commercial	1,656,373	1,618,829
Residential	372,469	267,744
Government	444,470	1,182,101
	<u>2,473,312</u>	<u>3,068,674</u>

Rota:

Commercial	124,827	110,752
Residential	314,661	293,882
Government	1,797,000	3,067,352
	<u>2,236,488</u>	<u>3,471,986</u>

Total billed	50,813,501	56,378,535
Unbilled and disputed	<u>16,281,243</u>	<u>19,412,480</u>
Accounts receivable	<u>\$ 67,094,744</u>	<u>75,791,015</u>

Changes in allowance for uncollectible accounts for the years ended September 30, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Total allowance, beginning of the year	\$ 61,540,314	51,958,855
Recovery of uncollectible customer accounts	(10,336,435)	-
Provision for uncollectible customer accounts	<u>4,264,806</u>	<u>9,581,459</u>
Total allowance, end of year	<u>\$ 55,468,685</u>	<u>61,540,314</u>

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

Notes to the Financial Statements

September 30, 2024 and 2023

(4) Accounts Receivable – Utility, continued

Provisions for and recovery of uncollectible accounts for the years ended September 30, 2024 and 2023 were as follows:

	2024	2023
Provision for uncollectible customer accounts	\$ 4,264,806	9,581,459
Recovery of uncollectible notes	-	-
Provision for uncollectible notes	-	32,891
Total provisions for uncollectible accounts	\$ 4,264,806	9,614,350

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:

	2024	2023
Residential	\$ 518,077	460,799
Commercial	160,725	238,326
Government	35,779,085	28,332,854
Total assessed penalties	36,457,887	29,031,979
Allowance for uncollectible penalties	(36,457,887)	(29,031,979)
Assessed penalties, net	\$ -	-

CUC and the central government had agreed on an adjusted balance of the 1% OPA fee, 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.

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

Notes to the Financial Statements

September 30, 2024 and 2023

(5) Inventory

Inventory balances as of September 30, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Fuel and lubes	\$ 2,927,736	3,492,405
Materials and supplies	<u>19,793,834</u>	<u>21,743,144</u>
	22,721,568	25,235,549
Allowance for obsolescence	<u>(742,943)</u>	<u>(742,943)</u>
Inventory, net	<u>\$ 21,978,625</u>	<u>24,492,606</u>

(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 \$11,236,433 and \$4,633,037, respectively, for the year ended September 30, 2024, and \$9,459,998 and \$4,965,688, respectively, for the year ended September 30, 2023.

(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, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Electric	\$ 12,097,452	11,104,432
Water	618,168	619,868
Sewer	<u>285,370</u>	<u>271,384</u>
Total security deposits	13,000,990	11,995,684
Accrued interest on security deposits	<u>610,154</u>	<u>606,392</u>
Security deposits, including interest	<u>\$ 13,611,144</u>	<u>12,602,076</u>

COMMONWEALTH UTILITIES CORPORATION

(A Component of the CNMI Government)

Notes to the Financial Statements

September 30, 2024 and 2023

(8) Capital Assets

Included in utility plant in service adjustments/transfers for the fiscal years ended September 30, 2024 and 2023 are completed projects transferred from construction work-in-progress to utility plant in service of \$3,183,751 and \$-0-, respectively.

CUC entered several construction contracts during fiscal year 2024 for improvements, rehabilitation, and replacement of facilities and other capital projects. As of September 30, 2024 and 2023, CUC had outstanding construction contracts totaling \$25,754,729 and \$21,392,604, respectively, that will be financed from operating funds and federal awards.

COMMONWEALTH UTILITIES CORPORATION
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Notes to the Financial Statements
September 30, 2024 and 2023

(8) Capital Assets, continued

A summary of the changes in capital assets for the years ended September 30, 2024 and 2023 are as follow:

		2024				
	Useful Lives	October 1, 2023	Additions	Disposals	Adjustments or Transfers	September 30, 2024
Non-depreciable capital assets:						
Construction in progress		\$ 31,860,302	\$ -	\$ -	\$ (3,183,751)	\$ 28,676,551
Total non-depreciable capital assets		31,860,302	-	-	(3,183,751)	28,676,551
Depreciable capital assets:						
Utility plant in service:						
Electric plant	25 years	180,831,638	3,001,890	406,094	-	183,427,434
Water plant	25 years	91,698,865	8,223,748	3,968,435	3,183,751	99,137,929
Sewer plant	25 years	58,972,719	4,463,560	481,338	-	62,954,941
Administrative equipment	3-5 years	4,165,887	-	118,289	-	4,047,598
		335,669,109	15,689,198	4,974,156	3,183,751	349,567,902
Accumulated depreciation		(243,232,983)	(9,776,664)	(1,799,414)	-	(251,210,233)
Total depreciable capital assets		92,436,126	5,912,534	3,174,742	3,183,751	98,357,669
Right-to-use leased assets:						
Land	40 years	360,408	-	-	-	360,408
Accumulated amortization		(21,023)	(9,010)	-	-	(30,033)
		339,385	(9,010)	-	-	330,375
Total capital assets, net		\$124,635,813	\$ 5,903,524	\$ 3,174,742	\$ -	\$127,364,595

COMMONWEALTH UTILITIES CORPORATION
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Notes to the Financial Statements
September 30, 2024 and 2023

(8) Capital Assets, continued

		2023				
	Useful Lives	October 1, 2022	Additions	Disposals	Adjustments or Transfers	September 30, 2023
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		\$123,085,882	\$ 1,492,947	\$ (56,984)	\$ -	\$124,635,813

COMMONWEALTH UTILITIES CORPORATION

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Notes to the Financial Statements

September 30, 2024 and 2023

(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, 2024 and 2023, CUC recognized outstanding payables to the CNMI Government of \$8,148,213 and \$18,507,949, respectively, based on 1% of CUC's operations budget. The balance at September 30, 2022 excluded fuel costs from the calculation.

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, 2024 and 2023 were \$579,000 and \$907,401, respectively.

After September 30, 2023, CUC and OPA performed a reconciliation of the 1% fee payable to OPA. 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.

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, 2024 and 2023, CUC recorded retirement contributions payable of \$2,590,200 and \$3,231,607, respectively.

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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Notes to the Financial Statements

September 30, 2024 and 2023

(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, 2024 and 2023 amounted to \$540,000 and \$720,000, respectively.

(11) Commitments and Contingencies

Commitments

Capital Commitments

At September 30, 2024, CUC had commitments of \$21.820 million for construction, purchases of inventory, and acquisition of property and equipment, all of which are expected to be incurred in 2025.

COMMONWEALTH UTILITIES CORPORATION

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Notes to the Financial Statements

September 30, 2024 and 2023

(11) Commitments and Contingencies

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. The option to extend for two years was exercised.

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.

COMMONWEALTH UTILITIES CORPORATION

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Notes to the Financial Statements

September 30, 2024 and 2023

(11) Commitments and Contingencies

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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Notes to the Financial Statements

September 30, 2024 and 2023

(11) 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, 2024.

(12) 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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Notes to the Financial Statements

September 30, 2024 and 2023

(12) Environmental Remediation Liability, continued

U.S. Environmental Protection Agency, continued

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,

2025

\$ 312,500

(13) 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.

(14) 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

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.

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

Notes to the Financial Statements

September 30, 2024 and 2023

(14) Leases, continued

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, 2024 and 2023.

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

	2024	2023
Right-to-use asset	\$ 330,375	339,385
Lease liabilities, current	\$ 1,888	1,808
Lease liabilities, non-current	351,483	353,371
Lease liabilities	\$ 353,371	355,179

The following summarizes lease expenses for the years ended September 30, 2024 and 2023:

	2024	2023
Interest expense	\$ 15,443	31,115
Amortization expense	9,010	9,010
Expenses related to the lease	\$ 24,453	40,125

Supplemental information related to the Company's leases follows:

	2024	2023
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	37 years	38 years
Weighted average discount rate	4.36%	4.36%

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

Notes to the Financial Statements

September 30, 2024 and 2023

(14) Leases, continued

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

<u>September 30:</u>	<u>Payments</u>	<u>Principal</u>	<u>Interest</u>
2025	\$ 17,258	\$ 1,888	\$ 15,370
2026	17,258	1,972	15,286
2027	17,258	2,060	15,198
2028	17,258	2,152	15,106
2029	17,689	2,681	15,008
2030 - 2034	92,751	20,139	72,612
2035 - 2039	95,766	28,203	67,563
2040 - 2044	99,212	39,096	60,116
2045 - 2049	104,811	54,751	50,060
2050 - 2054	105,527	69,492	36,035
2055 - 2059	114,004	94,946	19,058
2060 - 2064	37,378	35,990	1,388
	<u>\$ 736,170</u>	<u>\$ 353,370</u>	<u>\$ 382,800</u>

(15) 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. 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.

COMMONWEALTH UTILITIES CORPORATION

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Notes to the Financial Statements

September 30, 2024 and 2023

(16) Subsequent Events

1% OPA Fees Reconciliation

On October 17, 2025, a Memorandum of Agreement (MOA) was signed between CUC and the Central Government. They agreed to offset \$3.9 million against the remaining balance owed to the CNMI Government, applying it to their 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 \$35.7 million in penalties as of September 29, 2025. After applying adjustments and credits, the remaining enforceable principal due from CHCC was approximately \$34 million.

This event occurred subsequent to the September 30, 2024 reporting period and does not affect the balances reported as of that date.

(17) Reclassification

Certain reclassifications have been made to the 2023 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, 2024, was restated for \$44,219 to correct bad debts recovery.

COMMONWEALTH UTILITIES CORPORATION

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Notes to the Financial Statements

September 30, 2024 and 2023

(19) Date of Management's Review

Management has evaluated subsequent events and transactions occurring after the statement of net position date through the date of availability of the financial statements to be issued April 2, 2026. 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 16 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, 2024

	Power	Water	Sewer	Administrative and General	Elimination	Total
Operating revenues:						
Government	\$ 6,807,750	4,189,518	2,153,354	-	(1,834,422)	11,316,200
Commercial	14,613,385	2,583,157	1,086,513	-	-	18,283,055
Residential	6,481,717	5,808,334	591,313	-	-	12,881,364
	27,902,852	12,581,009	3,831,180	-	(1,834,422)	42,480,619
Fuel adjustment charge	68,167,103	-	-	-	(3,681,251)	64,485,852
Other revenue	556,551	123,689	38,695	-	-	718,935
	96,626,506	12,704,698	3,869,875	-	(5,515,673)	107,685,406
Provisions for uncollectible accounts	(1,532,368)	(1,938,349)	(794,089)	-	-	(4,264,806)
Net operating revenues	95,094,138	10,766,349	3,075,786	-	(5,515,673)	103,420,600
Operating expenses:						
Fuel, lube and taxes	64,551,049	-	-	-	-	64,551,049
General and administrative	6,114,885	4,297,094	898,725	15,309,850	-	26,620,554
Maintenance	4,953,637	1,666,863	858,368	1,419,799	-	8,898,667
Depreciation	4,740,131	2,551,345	2,382,886	93,292	-	9,767,654
Utility consumption	4,380,476	4,072,910	1,050,269	1,644	(5,515,673)	3,989,626
Miscellaneous expense	-	-	-	1,538,148	-	1,538,148
Supplies	410,784	697,497	170,359	369,842	-	1,648,482
Amortization	9,010	-	-	-	-	9,010
Total operating expenses	85,159,972	13,285,709	5,360,607	18,732,575	(5,515,673)	117,023,190
Operating income (loss) before allocation of common costs	9,934,166	(2,519,360)	(2,284,821)	(18,732,575)	-	(13,602,590)
Allocation of common costs	(16,352,295)	(1,851,371)	(528,909)	18,732,575	-	-
Operating loss, rolled forward	(6,418,129)	(4,370,731)	(2,813,730)	-	-	(13,602,590)

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, 2024

	Power	Water	Sewer	Administrative and General	Elimination	Total
Operating loss, carried forward	(6,418,129)	(4,370,731)	(2,813,730)	-	-	(13,602,590)
Non-operating revenues (expenses):						
Interest income and late charges	42,215	28,828	21,295	190,517	-	282,855
Miscellaneous income	2,800	7,400	14,455	636,909	-	661,564
Recovery of bad debts	4,708,768	3,962,382	1,665,285	-	-	10,336,435
Interest expense	(15,443)	-	-	-	-	(15,443)
Settlement	(15,468)	(108,400)	-	-	-	(123,868)
Contributions to primary government - OPA fee	(942,388)	(140,204)	(36,673)	-	-	(1,119,265)
Dividends	(900,000)	-	-	-	-	(900,000)
Change in deferred fuel cost	(3,616,054)	-	-	-	-	(3,616,054)
Total non-operating revenues (expenses)	(735,570)	3,750,006	1,664,362	827,426	-	5,506,224
Income before capital contributions and federal grants	(7,153,699)	(620,725)	(1,149,368)	827,426	-	(8,096,366)
Capital contributions and federal grants	2,128,915	7,311,307	6,295,919	12,094	-	15,748,235
Change in net position	<u>\$ (5,024,784)</u>	<u>6,690,582</u>	<u>5,146,551</u>	<u>839,520</u>	<u>-</u>	<u>7,651,869</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, 2023

	Power	Water	Sewer	Administrative and General	Elimination	Total
Operating revenues:						
Government	\$ 7,057,789	4,880,672	2,753,149	-	(1,894,292)	12,797,318
Commercial	13,718,321	2,474,209	1,124,239	-	-	17,316,769
Residential	6,172,553	5,648,434	603,566	-	-	12,424,553
	26,948,663	13,003,315	4,480,954	-	(1,894,292)	42,538,640
Fuel adjustment charge	71,499,410	-	-	-	(4,001,930)	67,497,480
Other revenue	720,949	147,721	5,805	-	-	874,475
	99,169,022	13,151,036	4,486,759	-	(5,896,222)	110,910,595
Provisions for uncollectible accounts	(4,833,367)	(2,801,447)	(1,979,536)	-	-	(9,614,350)
Net operating revenues	94,335,655	10,349,589	2,507,223	-	(5,896,222)	101,296,245
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
Depreciation	4,747,531	2,285,025	2,218,735	157,549	-	9,408,840
Maintenance	5,052,763	2,159,649	597,675	806,151	-	8,616,238
Utility consumption	4,828,287	4,287,215	1,214,136	3,294	(5,896,222)	4,436,710
Miscellaneous expense	-	-	-	1,485,543	-	1,485,543
Supplies	288,266	477,262	178,004	337,924	-	1,281,456
Amortization	9,010	-	-	-	-	9,010
Total operating expenses	86,846,603	13,029,318	5,044,270	17,121,492	(5,896,222)	116,145,461
Operating income (loss) before allocation of common costs	7,489,052	(2,679,729)	(2,537,047)	(17,121,492)	-	(14,849,216)
Allocation of common costs	(15,067,917)	(1,653,105)	(400,470)	17,121,492	-	-
Operating loss, rolled forward	(7,578,865)	(4,332,834)	(2,937,517)	-	-	(14,849,216)

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, 2023

	Power	Water	Sewer	Administrative and General	Elimination	Total
Operating income (loss), carried forward	(7,578,865)	(4,332,834)	(2,937,517)	-	-	(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)
Dividends	(900,000)	-	-	-	-	(900,000)
Contributions to primary government - OPA fee	(832,906)	(56,884)	(17,611)	-	-	(907,401)
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 and federal grants	(12,243,484)	(4,293,777)	(2,264,924)	430,177	-	(18,372,008)
Capital contributions and federal grants	1,686,481	7,710,413	4,639,177	314,668	-	14,350,739
Change in net position	<u>\$ (10,557,003)</u>	<u>3,416,636</u>	<u>2,374,253</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
(A Component Unit of the Commonwealth
of the Northern Mariana Islands)

Independent Auditor's Reports on
Internal Control and Compliance
September 30, 2024

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



**INDEPENDENT AUDITOR'S 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 Commonwealth Utilities Corporation (CUC), as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise CUC's basic financial statements and have issued our report thereon dated April 2, 2026.

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 2024-001 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 *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2024-001.

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.

Bryan Comer & Associates

Saipan, MP
April 2, 2026



**INDEPENDENT AUDITOR'S 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

Opinion on Each Major Federal Program

We have audited 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, 2024. CUC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, CUC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2024.

Basis for Opinion on Each Major Federal Program

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 opinion 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.

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.

Report on Internal Control over Compliance

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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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.

Burger Comer & Associates

Saipan, MP
April 2, 2026

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2024

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-00T33719	\$ -	1,686,669	\$ 1,686,669	\$ -	
			M-00T33721	-	2,511,848	2,511,848	-	
			M-00T33723	-	832,276	832,276	-	
			M-98T07701	-	1,262,832	1,262,832	-	
			M-98T47823	-	2,479,648	2,479,648	-	
			M-98T47824	-	806,197	806,197	-	
			Total US Environmental Protection Agency	-	9,579,470	9,579,470	-	
U. S. Department of the Treasury (CNMI Government)	Coronavirus State and Local Fiscal Recovery Funds	21.027	CNMI22002	1,553,577	-	1,553,577	-	
			CNMI22003	212,592	-	212,592	-	
			CNMI22005	1,500	-	1,500	-	
			CNMI22026	751,643	-	751,643	-	
			CNMI22042A	9,000	-	9,000	-	
			CNMI22046	637,760	-	637,760	-	
			Total US Department of the Treasury	3,166,072	-	3,166,072	-	

(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, 2024

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	-	400,279	400,279	-	
			CNMI-EIC-2020-1	-	30,603	30,603	-	
			CNMI-EIC-2020-3	-	277,443	277,443	-	
			TAP-CNMI-2021-4	-	245,000	245,000	-	
			TAP-CNMI-2021-6	-	38,243	38,243	-	
			MAP-CNMI-2021-1	-	245,350	245,350	-	
			CNMI-CIP-2019-4	72,135	-	72,135	-	
			MAP-CNMI-2020-2	10,800	-	10,800	-	
			CNMI-CIP-2021-6	99,835	-	99,835	-	
			CNMI-EIC-2022-2	56,189	-	56,189	-	
			CNMI-CIP-2021-7	280,000	-	280,000	-	
			CNMI-CIP-2023-2	303,196	-	303,196	-	
			Total US Department of the Interior	822,155	1,236,918	2,059,073	-	

(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, 2024

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)	Hazard Mitigation Grant Program	97.039	DR-4404-20-13R	156,893	-	156,893	-	4
			DR-4404-02-12R	89,256	-	89,256	-	4
			DR-4404-74-07R	137,732	-	137,732	-	4
			PDMC-PJ-09-MP-2017-008	28,270	-	28,270	-	4
			DR-4404-71-06R	232,659	-	232,659	-	4
	Total Federal Emergency Management Administration/Homeland Security			644,810	-	644,810	-	
U. S. Department of Commerce	Economic Development Cluster: Economic Adjustment Assistance	11.307	07-79-07506	-	420,045	420,045	-	3
	Total Economic Development Cluster		-	420,045	420,045	-		
	Total US Department of Commerce		-	420,045	420,045	-		
Total Expenditures of Federal Awards				\$ 4,633,037	\$ 11,236,433	\$ 15,869,470	\$ -	

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Notes to the Schedule of Expenditure of Federal Awards
September 30, 2024

(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, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of CUC, it is not intended to and does not present the financial position, changes in net position or cash flows of CUC.

(3) Summary of Significant Accounting Policies

Basis of Accounting

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

Indirect Costs

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

Matching Costs

The 20 percent non-federal share of ALN 11.307 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, 2024

(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, 2024

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	<u> x </u> No
• Were significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> x </u> Yes	____ No
Non-compliance material to financial statements noted?	____ Yes	<u> x </u> No

Federal Awards

Internal Control over Major Federal Programs:		
• Material weakness(es) identified?	____ Yes	<u> x </u> No
• Were significant deficiency(ies) identified that are not considered to be material weaknesses?	____ Yes	<u> x </u> No
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	Unmodified	
Are there any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ Yes	<u> x </u> No

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Schedule of Findings and Questioned Costs
September 30, 2024

SECTION I – SUMMARY OF AUDITOR’S RESULT, continued

Identification of Major Programs

<u>AL No.</u>	<u>Description</u>	<u>Federal Expenditures</u>
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	\$ 9,579,470
21.027	Coronavirus State and Local Fiscal Recovery Funds	<u>3,166,072</u>
	Total Major Program Expenditures	<u>\$ 12,745,542</u>
Total Federal Expenditures		<u>\$ 15,869,470</u>
Percentage of Federal Expenditures tested as Major Programs		<u>80.31%</u>
Dollar threshold used to distinguish between Type A and Type B Programs:		
	\$750,000	
Did the auditee qualify as low-risk?		
	<u> </u> Yes	<u> x </u> No

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Schedule of Findings and Questioned Costs
September 30, 2024

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2024-001

Area: Procurement
Repeat Finding from Prior Audit? Yes
Finding Type: Significant Deficiency in Internal Control

Criteria:

According to CUC Procurement Regulation No. § 50-50-205:

- Section (b) – Public Notice. Adequate public notice of the invitation for bids shall be given a reasonable time prior to the date set forth for the opening of bids. Publication of notice in a newspaper of general circulation in the Commonwealth once in each week over a period of calendar days shall be deemed to be adequate notice.
- Section (c) – Bidding Time. A bidding time of at least thirty calendar days shall be provided, unless the Director determines a shorter period is reasonable and necessary.

These requirements are intended to ensure transparency, competition, and fairness in the procurement process.

Condition:

Of the 32 procurement transactions tested, 8 transactions (25%) did not meet the required 30-calendar-day public notice period, and no documentation was provided to indicate that the Executive Director approved a shorter bidding period as allowed under policy.

<u>Contract No.</u>	<u>No. of Days Advertised</u>	<u>Contract No.</u>	<u>No. of Days Advertised</u>
CUC-WW-24-C009	23	CUC-WW-24-C022	26
CUC-TPD-24-C012	25	CUC-WW-24-C024	28
CUC-SWR-24-C016	26	CUC-WW-24-C027	27
CUC-WW-24-C019	27	CUC-WW-24-C032	26

Of the 32 procurement transactions tested, 2 transactions (6%) did not meet the required 30-calendar-day bidding period, and no documentation was provided to indicate that the Executive Director approved a shorter bidding period as allowed under policy.

<u>Contract No.</u>	<u>No. of Days Given for Bid Submission</u>
CUC-WW-24-C022	29
CUC-WW-24-C027	28

SECTION II – FINANCIAL STATEMENTS FINDINGS, continued

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Schedule of Findings and Questioned Costs
September 30, 2024

Finding No. 2024-001, continued

Cause:

Procurement timelines were not adequately monitored to ensure compliance with CUC's public notice and bidding time requirements. In addition, there was insufficient documentation to demonstrate Executive Director approval when shorter bidding periods were used.

Effect:

Failure to comply with required public notice and bidding time periods may have limited vendor awareness and participation and reduced competition. This condition weakens transparency in the procurement process and increases the risk of vendor disputes, challenges to procurement fairness, and noncompliance with established procurement policies.

Recommendation:

CUC should strengthen internal controls over procurement timelines by:

1. Implementing procedures to monitor and document compliance with public notice and bidding time requirements for all procurement activities.
2. Requiring written documentation of Executive Director approval when bidding periods shorter than 30 calendar days are determined to be reasonable and necessary.
3. Enhancing supervisory review to ensure procurement transactions comply with Sections (b) and (c) of CUC's Procurement Regulation No. § 50-50-205.

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, 2024

SECTION III – FEDERAL AWARDS FINDINGS

None Reported

COMMONWEALTH UTILITIES CORPORATION
(A Component of the CNMI Government)
Schedule of Findings and Questioned Costs
September 30, 2024

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>
2023-001	Procurement	Unresolved	2024-001	\$0.00
2023-002	ALN 21.027 Reporting	Resolved	-	\$0.00
2022-002	Procurement	Unresolved	2024-001	\$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, 2024:

Questioned costs, as previously reported	\$ -
Questioned costs for the fiscal year 2024 Single Audit	<u>-</u>
Unresolved questions cost on September 30, 2024	<u><u>\$ -</u></u>



Commonwealth Utilities Corporation

Office of the Chief Financial Officer



March 24, 2025

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

Subject: Schedule of Findings and Questioned Costs for the year ending September 30, 2024

Dear Mr. Burger:

Please see below for CUC's response to the finding regarding CUC FY 2024 Audit:

Finding No. 2024-001 - Significant Deficiency in Internal Control (Procurement)

Criteria:

According to CUC Procurement Regulation No. § 50-50-205:

- Section (b) – Public Notice. Adequate public notice of the invitation for bids shall be given a reasonable time prior to the date set forth for the opening of bids. Publication of notice in a newspaper of general circulation in the Commonwealth once in each week over a period of calendar days shall be deemed to be adequate notice.
- Section (c) – Bidding Time. A bidding time of at least thirty calendar days shall be provided, unless the Director determines a shorter period is reasonable and necessary.

These requirements are intended to ensure transparency, competition, and fairness in the procurement process.

Condition:

Of the 32 procurement transactions tested, 8 transactions (25%) did not meet the required 30-calendar-day public notice period, and no documentation was provided to indicate that the Executive Director approved a shorter bidding period as allowed under policy.

Contact No.	No. of Days Advertised	Contract No.	No. of Days Advertised
CUC-WW-24-C009	23	CUC-WW-24-C022	26
CUC-TPD-24-C012	25	CUC-WW-24-C024	28
CUC-SWR-24-C016	26	CUC-WW-24-C027	27
CUC-WW-24-C019	27	CUC-WW-24-C032	26



Commonwealth Utilities Corporation

Office of the Chief Financial Officer



Of the 32 procurement transactions tested, 2 transactions (6%) did not meet the required 30-calendar-day bidding period, and no documentation was provided to indicate that the Executive Director approved a shorter bidding period as allowed under policy.

Contract No.	No. of Days Given for Bid Submission
CUC-WW-24-C022	29
CUC-WW-24-C027	28

Recommendation:

CUC should strengthen internal controls over procurement timelines by:

1. Implementing procedures to monitor and document compliance with public notice and bidding time requirements for all procurement activities.
2. Requiring written documentation of Executive Director approval when bidding periods shorter than 30 calendar days are determined to be reasonable and necessary.
3. Enhancing supervisory review to ensure procurement transactions comply with Sections (b) and (c) of CUC's Procurement Regulation No. § 50-50-205.

CUC Response:

CUC accepts the finding.

Management's Corrective Action Plan:

CUC Procurement Division will ensure all Bid Solicitation Notices are advertised pursuant to the required minimal timeline of 30 days.

All Bid Solicitation Notices are advertised on CUC's Website (24 hours/30 days continuous) & on Local Print Media (4-Week duration; 1-3 print adv. per week). Likewise, CUC Procurement advertises majority of its Bid Solicitation Notices on the Pacific Power Association Website.

Person Responsible: Administrative Coordinator

Beginning in Fiscal Year 2025, a policy has been implemented to ensure compliance with the 30-day requirement through cross-checking processes between Procurement and Accounting.

Sincerely,


Betty Terlaje
Chief Financial Officer