

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

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

**Years Ended
September 30, 2018 and 2017**

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

Years Ended September 30, 2018 and 2017

TABLE OF CONTENTS

<u>DESCRIPTION</u>	<u>PAGE NUMBERS</u>
I. FINANCIAL STATEMENTS	
Independent Auditors' Report on Financial Statements	1-3
Management's Discussion & Analysis	4-12
Statements of Net Position	13-14
Statements of Revenues, Expenses and Changes in Net Position	15-16
Statements of Cash Flows	17-18
Notes to Financial Statements	19-43
Supplementary Information - Schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis	44-45
II. INDEPENDENT AUDITORS' REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	46-47
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the <i>Uniform Guidance</i>	48-49
Schedule of Expenditures of Federal Awards	50
Notes to Schedule of Expenditures of Federal Awards	51-52
Summary of Auditors' Results	53-54
Schedule of Findings and Questioned Costs	55-62
Management's Response and Corrective Action Plan	63

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Commonwealth Utilities Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the Commonwealth Utilities Corporation, a component unit of the Commonwealth of the Northern Mariana Islands Government, as of and for the year ended September 30, 2018 and the related notes to the financial statements, which collectively comprise the Commonwealth Utilities Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commonwealth Utilities Corporation as of September 30, 2018, and the changes in net position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth Utilities Corporation's basic financial statements. The schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

Such 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 Schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2019, on our consideration of the Commonwealth Utilities Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commonwealth Utilities Corporation's internal control over financial reporting and compliance.



Saipan, Commonwealth of the Northern Mariana Islands

May 30, 2019

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

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, 2018 with comparisons to the prior fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with the financial statements, related notes and supplementary information (pages 19 through 45).

	2018	2017	\$ Change	% Change
Assets				
Current unrestricted assets	\$ 64,686,112	\$ 57,314,253	\$ 7,371,859	12.9%
Current restricted assets	12,155,603	10,404,546	1,751,057	16.8%
Noncurrent assets	53,077	34,766	18,311	52.7%
Capital assets, net	107,279,233	103,843,693	3,435,540	3.3%
	\$ 184,174,025	\$ 171,597,258	\$ 12,576,767	7.3%
Current liabilities	\$ 16,927,908	\$ 26,154,040	\$ (9,226,132)	-35.3%
Noncurrent liabilities	29,540,179	27,136,730	2,403,449	8.9%
Deferred inflows	107,750	640,342	(532,592)	-83.2%
Net position	137,598,188	117,666,146	19,932,042	16.9%
	\$ 184,174,025	\$ 171,597,258	\$ 12,576,767	7.3%
Revenues, Expenses and Changes in Net Position				
Operating revenues	\$ 94,783,216	\$ 78,200,438	\$ 16,582,778	21.2%
Operating expenses	87,409,119	82,292,247	5,116,872	6.2%
Earnings (loss) from operations	7,374,097	(4,091,809)	11,465,906	
Capital contributions	9,208,125	23,713,013	(14,504,888)	-61.2%
Nonoperating revenues (expenses)	5,530,693	10,781,420	(5,250,727)	-48.7%
Change in recovery of fuel costs	(2,180,873)	(544,378)	(1,636,495)	300.6%
Total nonoperating revenues (expenses), net	12,557,945	33,950,055	(21,392,110)	
Change in net position	\$ 19,932,042	\$ 29,858,246	\$ (9,926,205)	-33.2%

For the year ended September 30, 2018, CUC has earnings from operations of about \$7.4 million as compared to a loss of about \$4.1 million for the year ended September 30, 2017.

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

During the year ended September 30, 2018, CUC operating revenues increased overall by \$14.3million or 16.8% when compared to revenues for the year ended September 30, 2017. Operating expenses also increased by \$2.8 million or 3.2%.

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, and 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. It compares related operating revenues and operating expenses connected with CUC's principal business of providing power, water and sewer services. Operating expenses include the cost of direct services to customers, administrative expenses, contracted services and depreciation on capital assets. All other revenues and expenses are reported as non-operating.

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

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

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

Notes to the Financial Statements

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

Other Information

This report also presents certain supplementary information concerning CUC's Schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis (see pages 44 through 45).

ANALYSIS OF BASIC FINANCIAL STATEMENTS

Condensed Statements of Revenues, Expenses and Change in Net Position

	<u>2018</u>	<u>2017</u>
Operating revenues, net	\$ 94,783,216	\$ 78,200,438
Operating expenses	<u>87,409,119</u>	<u>82,292,247</u>
Earnings (loss) from operations	7,374,097	(4,091,809)
Nonoperating revenues (expenses), net	5,530,693	10,781,420
Change in recovery of fuel costs	<u>(2,180,873)</u>	<u>(544,378)</u>
Net earnings (loss) before capital contributions and federal grants	10,723,917	6,145,233
Capital contributions and federal grants	<u>9,208,125</u>	<u>23,713,013</u>
Change in net position	19,932,042	29,858,246
Net position, beginning	<u>117,666,146</u>	<u>87,807,900</u>
Net position, ending	<u>\$ 137,598,188</u>	<u>\$ 117,666,146</u>

CUC's earnings from its operations at the end of fiscal year 2018 is \$7.4 million.

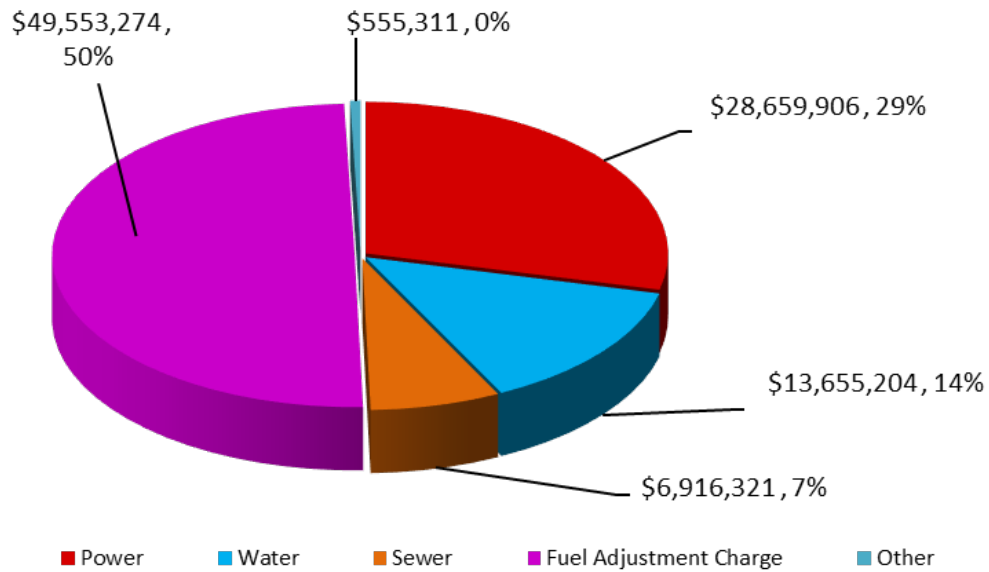
COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

MANAGEMENT'S DISCUSSION & ANALYSIS
September 30, 2018

Financial Highlights

Operating Revenues

	2018	2017	\$ Change	% Change
Power	\$ 28,659,906	\$ 27,438,584	\$ 1,221,322	4.5%
Water	\$ 13,655,204	\$ 12,616,559	\$ 1,038,645	8.2%
Sewer	\$ 6,916,321	\$ 5,630,545	\$ 1,285,776	22.8%
Fuel Adjustment Charge	\$ 49,553,274	\$ 38,616,418	\$ 10,936,856	28.3%
Other	\$ 555,311	\$ 727,340	\$ (172,029)	-23.7%
Total	\$ 99,340,016	\$ 85,029,446	\$ 14,310,570	16.8%

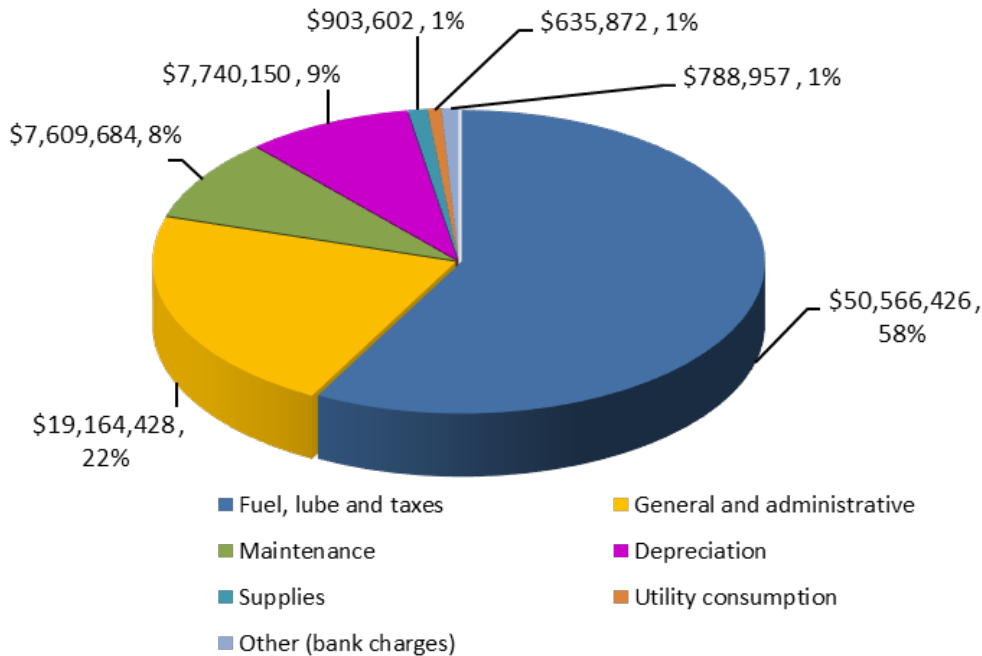


COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

MANAGEMENT'S DISCUSSION & ANALYSIS
September 30, 2018

Operating Expenses

	2018	2017	\$ Change	% Change
Fuel, lube and taxes	\$ 50,566,426	\$ 39,995,273	\$ 10,571,153	26.4%
General and administrative	\$ 19,164,428	\$ 21,284,669	\$ (2,120,241)	-10.0%
Maintenance	\$ 7,609,684	\$ 10,412,996	\$ (2,803,312)	-26.9%
Depreciation	\$ 7,740,150	\$ 8,110,251	\$ (370,101)	-4.6%
Supplies	\$ 903,602	\$ 1,310,271	\$ (406,669)	-31.0%
Utility consumption	\$ 635,872	\$ 649,135	\$ (13,263)	-2.0%
Other (bank charges)	\$ 788,957	\$ 529,652	\$ 259,305	49.0%
Total	\$ 87,409,119	\$ 82,292,247	\$ 5,116,872	6.2%



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

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

Capital Assets

At September 30, 2018, CUC had \$107,228,714 invested in capital assets, net of depreciation where applicable, including electric plant, water plant, sewer plant, administrative equipment and construction in progress.

	<u>2018</u>	<u>2017</u>
Utility plant in service		
Electric plant	\$ 157,498,215	\$ 147,485,242
Water plant	79,071,127	74,365,783
Sewer plant	54,519,080	51,880,772
Administrative equipment	<u>3,992,900</u>	<u>3,980,428</u>
	295,081,322	277,712,225
Accumulated depreciation	<u>(205,810,899)</u>	<u>(200,087,618)</u>
Depreciable assets, net	89,270,423	77,624,607
Construction work-in progress	<u>18,008,810</u>	<u>26,219,086</u>
Capital assets, net	<u>\$ 107,279,233</u>	<u>\$ 103,843,693</u>

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

Debt

Long-term debt as of September 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Commonwealth Ports Authority	\$ -	\$ 3,385,131
Current maturities	<u>-</u>	<u>(3,385,131)</u>
Long-term debt, net of current portion	<u>\$ -</u>	<u>\$ -</u>

For additional information regarding long-term debt activity, refer to Note 10 in the accompanying notes to the financial statements.

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

EXECUTIVE OVERVIEW AND OUTLOOK

OVERVIEW

The 2018 Budget Year was dramatically a different year for CUC. In the prior two years, CUC was affected by growth pressures in the area of 40%. However, that did not continue in 2018 and growth had fallen to 3% due to the loss of CW and H1B workers from the workforce. Resort properties began the year strongly but as the months passed, the only large hotel property under construction was Saipan Global. American Sinopac in Tanapaq had started groundbreaking and Honest Profit was moving forward strongly but they have since gone silent. Administration worked effectively to maintain a strong fiscal position and revenue did not fall off such that senior management continues to plan to take advantage of significant opportunities as they come to us. At the start of the 2019 fiscal year in October of 2018 and the arrival of two typhoons, those opportunities have already begun to happen.

POWER GENERATION

The age and condition of Power Plant #1's gensets is good to fair with four gensets available, two out for scheduled repairs and two having been cannibalized or taken apart due to planned replacement. With Power Plant #4 even older and in the same condition as Power Plant #1, CUC finds itself in the position of needing to make a bold move. A study on the feasibility of considering building an entirely new power plant has been drafted with additional work being needed to complete that analysis. However, early indications are in favor of moving forward on this initiative. Every effort is being made to put CUC into a very favorable position with its first unqualified opinion with the 2017 Fiscal Audit, procurement of one engine and possibly a second with the cash CUC controls in its secured accounts, completing the MOU with CPA which secures all outstanding obligations with both parties, which leaves only one MOU to be resolved either by negotiation, in the courts or with the support of the legislature with regard to CHCC's outstanding \$27 million accounts receivable growing at \$410,000 per month, on average.

Bids have gone out to replace Engine 8 and 4 in Power Plant #1 and bids were received that looked promising for verification and funding. Then the second place bidder initiated a protest and subsequent appeal which continues to linger into 2019. These engines will serve to sustain the power demand during a transition to a new power plant. With the slowdown in demand, the timing is in CUC's favor to work through finalizing a decision to proceed on a loan package or not.

POWER TRANSMISSION AND DISTRIBUTION

2018 was the year that partially prepared the island of Saipan to handle the upcoming Category 5 Typhoon Yutu. Of the 700 plus concrete poles that were installed, only 27 came down and the balance was all wood poles. This was a demonstration of the value of installing resilient infrastructure elements that can withstand environmental threats to the power grid. The

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

underground system was evaluated and found to be in good condition but plans to rehabilitate that system are under discussion at this time.

WATER OPERATIONS DIVISION

Water operations turned a corner in 2018. Non-revenue water loss dropped to the lowest point it has ever achieved at 50.2% at the end of the year. This is primarily due to significant improvements in water main and transmission main replacements, theft reductions by terminating numerous jungle lines, and a focus of water operations on resolving major leaks more quickly. Leak elimination is a number one goal of the division and due to the age and condition of the older water mains that go back to Japanese times in the 30's and 40's, CUC will only see gradual progress until all the water mains have been replaced and the metal water tanks replaced with concrete ones.

In July of 2018, the Water Division and Engineering quietly reported that the water system was now 24 hours for the first time but were holding off reporting till several months went by to verify this was real. This was a major event for CUC and since that time, Water operations continue to provide 24 hour supply to all areas of the island.

WASTEWATER OPERATIONS DIVISION

Wastewater infrastructure is probably in the worst shape of any of our divisions. The lift stations are gradually being renovated with new systems, pumps, wet wells and VFD's for soft start control. New sewer main extensions need to be expanded into districts where opportunities are being identified and the best test is where the garment districts existed and they installed sewers that were either undersized, force mains treated as gravity mains, or they were installed on private property without the appropriate easement or right away access being provided.

The poor condition status is primarily due to the condition of the WWTP's which are corroding badly and have high quantities of grit and debris in their tanks because that material is not being removed before entering the treatment process units. This will change with the 2019 budget which funds new trash and grit removal systems for both plants. At the start of the year, both plants were performing okay, however, troubling signs were developing with the clarifiers at both WWTP's and in October, both went off-line. The clarifiers were tipping, planetary drives were off-line and the years of corrosion and poor system maintenance came to a head. Temporary repairs were initiated and plans drawn up to correct the initial problems. Then Typhoon Mangkhut damaged Rota and immediately following that storm, a Category 5 Super Typhoon Yutu hit Saipan and Tinian. Plans are in place to install significant improvements in Sadog Tasi which will significantly rehabilitate the plant. Agingan, which is not quite as bad, will be back on line and CUC has time to plan for improving that plant several years out.

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

MANAGEMENT'S DISCUSSION & ANALYSIS

September 30, 2018

REQUESTS FOR INFORMATION

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

Commonwealth Utilities Corporation
Attn: Chief Financial Officer
PO Box 501220
Saipan, MP 96950

Or, call (670) 664-4282.

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

Statements of Net Position
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Current assets:		
Current unrestricted assets		
Cash and cash equivalents	\$ 33,225,084	\$ 22,541,265
Accounts receivable - utility, net	13,510,974	10,577,906
Due from grantor agencies	1,104,568	5,007,907
Inventory, net	10,495,618	9,796,984
Unbilled fuel cost recovery	5,565,069	7,745,942
Notes receivable, net	94,865	123,180
Other assets, net	<u>689,934</u>	<u>1,521,069</u>
Total current unrestricted assets	64,686,112	57,314,253
Current restricted assets:		
Cash and cash equivalents	<u>12,155,603</u>	<u>10,404,546</u>
Total current assets	<u>76,841,715</u>	<u>67,718,799</u>
Noncurrent assets:		
Notes receivable, net of current portion	<u>53,077</u>	<u>34,766</u>
Capital assets:		
Utility plant in service:		
Electric plant	157,498,215	147,485,242
Water plant	79,071,127	74,365,783
Sewer plant	54,519,080	51,880,772
Administrative equipment	<u>3,992,900</u>	<u>3,980,428</u>
	295,081,322	277,712,225
Accumulated depreciation	<u>(205,810,899)</u>	<u>(200,087,618)</u>
Net utility plant and administrative equipment	89,270,423	77,624,607
Construction in progress	<u>18,008,810</u>	<u>26,219,086</u>
Total capital assets	<u>107,279,233</u>	<u>103,843,693</u>
Total noncurrent assets	<u>107,332,310</u>	<u>103,878,459</u>
TOTAL ASSETS	<u>\$ 184,174,025</u>	<u>\$ 171,597,258</u>

See accompanying notes to financial statements.

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

Statements of Net Position, Continued

September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>LIABILITIES</u>		
Current liabilities:		
Unrestricted current liabilities:		
Accounts payable and accrued liabilities	\$ 3,878,757	\$ 8,735,763
Compensated absences	1,052,669	1,030,574
Current maturities of long-term debt	-	3,385,131
Interest payable	-	1,067,184
	<u>4,931,426</u>	<u>14,218,652</u>
Restricted current liabilities:		
Security deposits, including accrued interest	<u>11,996,482</u>	<u>11,935,388</u>
	<u>16,927,908</u>	<u>26,154,040</u>
Noncurrent liabilities:		
Due to primary government	8,288,990	7,981,211
Retirement contributions payable	3,469,797	3,452,169
Unearned local grants	3,999,738	(588,015)
Unearned fuel purchase obligation rebate	1,731,316	3,931,316
Unearned revenue	489,105	618,816
Payable others	9,941,233	9,941,233
Dividends payable	<u>1,620,000</u>	<u>1,800,000</u>
	<u>29,540,179</u>	<u>27,136,730</u>
TOTAL LIABILITIES	<u>46,468,087</u>	<u>53,290,770</u>
<u>DEFERRED INFLOWS</u>		
Rate stabilization (Public Law 16-7)	<u>107,750</u>	<u>640,342</u>
TOTAL DEFERRED INFLOWS	<u>107,750</u>	<u>640,342</u>
<u>NET POSITION</u>		
Net investment in capital assets	107,279,233	103,843,693
Restricted for:		
Preferred stocks	45,000,000	45,000,000
Unrestricted	<u>(14,681,045)</u>	<u>(31,177,547)</u>
NET POSITION	<u>\$ 137,598,188</u>	<u>\$ 117,666,146</u>

See accompanying notes to financial statements.

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Power	\$ 28,659,906	\$ 27,438,584
Water	13,655,204	12,616,559
Sewer	6,916,321	5,630,545
Fuel Adjustment Charge	49,553,274	38,616,418
Other	<u>555,311</u>	<u>727,340</u>
Total operating revenues	99,340,016	85,029,446
Bad debt expense	<u>(4,556,800)</u>	<u>(6,829,008)</u>
Net operating revenues	<u>94,783,215</u>	<u>78,200,438</u>
Operating expenses:		
Fuel, lube and taxes	50,566,426	39,995,273
General and administrative	19,164,428	21,284,669
Maintenance	7,609,684	10,412,996
Depreciation	7,740,150	8,110,251
Supplies	903,602	1,310,271
Utility consumption	635,872	649,135
Other (bank charges)	<u>788,957</u>	<u>529,652</u>
Total operating expenses	<u>87,409,119</u>	<u>82,292,247</u>
Earnings (loss) from operations, carried forward	<u>\$ 7,374,096</u>	<u>\$ (4,091,809)</u>

See accompanying notes to financial statements.

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

Statements of Revenues, Expenses and Changes in Net Position, Continued

For the Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Earnings (loss) from operations, brought forward	\$ 7,374,096	\$ (4,091,809)
Non-operating revenues (expenses):		
Interest income	625,600	544,159
Miscellaneous income	158,069	387,198
Amortization of fuel purchase obligation rebate	1,100,000	1,100,000
Revision of estimated billings	(3,867,366)	10,504,963
Regulatory assessments	-	4,661
Settlement income (expense)	(78,295)	97,403
Contribution to OPA	(307,778)	(503,708)
Stipulated order penalties	(15,000)	-
Bad debt recovery	9,025,697	-
Interest and distribution expense	<u>(1,110,234)</u>	<u>(1,353,256)</u>
Total non-operating revenues (expenses), net	<u>5,530,693</u>	<u>10,781,420</u>
Earnings before change in recovery of fuel costs	12,904,789	6,689,611
Change in recovery of fuel costs	<u>(2,180,873)</u>	<u>(544,378)</u>
Net earnings before capital contributions and federal grants	10,723,916	6,145,233
Capital contributions and federal grants	<u>9,208,126</u>	<u>23,713,013</u>
Change in net position	19,932,042	29,858,246
Net position, beginning	<u>117,666,146</u>	<u>87,807,900</u>
Net position, ending	<u>\$ 137,598,188</u>	<u>\$ 117,666,146</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows
For the Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from customers	\$ 94,466,780	\$ 85,512,512
Cash payments to suppliers for goods and services	(65,411,027)	(52,184,306)
Cash payments to employees for services	<u>(12,506,326)</u>	<u>(14,378,312)</u>
Net cash provided by operating activities	<u>16,549,427</u>	<u>18,949,894</u>
Cash flows from noncapital financing activities:		
Dividend payments	(1,260,000)	(5,580,000)
Interest paid on outstanding debt	(1,097,418)	(163,712)
Principal repayment of debt	<u>(3,692,909)</u>	<u>(466,832)</u>
Net cash used for noncapital financing activities	<u>(6,050,327)</u>	<u>(6,210,544)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(11,175,690)	(19,317,303)
Capital contributions received	<u>13,111,465</u>	<u>24,939,532</u>
Net cash provided by capital and related financing activities	<u>1,935,775</u>	<u>5,622,229</u>
Net change in cash and cash equivalents	12,434,876	18,361,579
Cash and cash equivalents at beginning of year	<u>32,945,811</u>	<u>14,584,232</u>
Cash and cash equivalents at end of year	<u>\$ 45,380,687</u>	<u>\$ 32,945,811</u>
Cash and cash equivalents	\$ 33,225,084	\$ 22,541,265
Restricted cash and cash equivalents	<u>12,155,603</u>	<u>10,404,546</u>
	<u>\$ 45,380,687</u>	<u>\$ 32,945,811</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows, Continued
For the Years Ended September 30, 2018 and 2017

	2018	2017
Reconciliation of earnings (loss) from operations to net cash provided by operating activities:		
Earnings (loss) from operations	\$ 7,374,096	\$ (4,091,809)
Adjustments to reconcile earnings (loss) from operations to net cash provided by operating activities:		
Depreciation	7,740,150	8,110,251
Bad debt expense	4,556,800	6,829,008
Interest income/late charges	625,600	544,159
Miscellaneous income	158,069	387,198
Marketing assistance program	1,100,000	1,100,000
Regulatory assessments	-	4,661
Stipulated order penalties	(15,000)	-
Settlement income (expense)	(78,295)	97,403
Revision of estimated billings	(3,867,366)	10,504,963
Bad debt recovery	9,025,697	-
(Increase) decrease in assets:		
Accounts receivable - utility	(7,489,869)	(10,778,755)
Inventory	(698,634)	1,634,910
Notes receivable	10,004	19,015
Other assets	831,136	292,007
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(4,857,007)	4,153,372
Compensated absences	22,095	(63,552)
Security deposits including accrued interest	61,094	(7,137)
Unearned revenue - BSI voucher	(129,711)	(100,041)
Unearned fuel purchase obligation rebate	2,387,753	(588,015)
Rate stabilization	(532,592)	299,574
Payable others	-	76,074
Due to primary government	307,779	503,706
Retirement contributions payable	17,628	22,902
	<u>\$ 16,549,427</u>	<u>\$ 18,949,894</u>
Net cash provided by operating activities	<u>\$ 16,549,427</u>	<u>\$ 18,949,894</u>

See accompanying notes to financial statements.

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

Notes to Financial Statements

September 30, 2018 and 2017

(1) Organization

The Commonwealth Utilities Corporation (CUC), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI) Government, 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 in order for CUC to become financially independent of appropriations by the CNMI Legislature. CUC is governed by a 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

Measurement Focus, Basis of Accounting and Basis of Presentation

CUC maintains a proprietary fund to account for its operations. Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the *Statement of Net Position*.

The *Statements of Revenues, Expenses and Changes in Net Position* present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

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

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its capital assets should recognize a liability based on the guidance in this Statement. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this Statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities for all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management has yet to determine whether the implementation of this Statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which addresses a variety of topics including blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this Statement had a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, the primary objective of which is to improve the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this Statement had material effect on the financial statements.

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

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use-lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this Statement will have a material effect on the financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, the primary objective of which is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions in Statement No. 88 are effective for fiscal years beginning after June 15, 2018. Management has yet to determine whether the implementation of this Statement will have a material effect on the financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The provisions in Statement No. 89 are effective for fiscal years beginning after December 15, 2019. The requirements of this Statement should be applied prospectively. Management has yet to determine whether the implementation of this Statement will have a material effect on the financial statements.

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

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Budgets

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

Cash and Cash Equivalents

For purposes of the Statements of Net Position and Cash Flows, cash and cash equivalents are defined as cash on hand, cash in checking and savings accounts, and short-term time certificates of deposit with a maturity date within three months of the date acquired. Time certificates of deposit with original dates greater than ninety days are separately classified on the Statements of Net Position.

GASB Statement No. 40 amended GASB Statement No. 3 to eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, CUC's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution in the depositor government's name or held by the pledging financial institution but not in the depositor government's name. CUC does not have a deposit policy for custodial credit risk.

At September 30, 2018 and 2017, cash and cash equivalents were \$45,380,687 and \$32,945,811, respectively, and the corresponding bank balances were \$40,788,736 and \$35,018,189, respectively. Of the bank balance amounts, \$40,648,385 and \$34,975,899, respectively, were maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance coverage. Bank deposits in the amount of \$40,372,029 and \$34,595,425 were in excess of FDIC insurable limits as of September 30, 2018 and 2017, respectively. CUC has deposits of \$139,422 in 2018 and \$41,009 in 2017 in Bank of Saipan, which is not FDIC insured. Bank of Saipan accepts customer payments for CUC. These collections are periodically transferred to CUC's FDIC insured bank accounts. CUC's deposits in excess of FDIC insured limits are collateralized by securities in the financial institution's name.

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

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Restricted Cash and Cash Equivalents

The restricted cash and cash equivalents of \$12,155,603 at September 30, 2018 and \$10,404,546 at September 30, 2017 pertain to customer deposits.

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

CUC provides utility services to customers within the CNMI and bills for these services on a monthly basis. The accumulated provision for uncollectible accounts is stated at an amount which management 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.

Investments

CUC reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America.

Level 1 - Fixed income and equity securities classified in level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Level 2 - Fixed income and equity securities classified in level 2 are valued using observable inputs including quoted prices for similar securities and interest rates.

Level 3 - Private equity, real assets, and other investments classified in level 3 are valued using discounted cash flow or market comparable techniques.

At September 30, 2018 and 2017, CUC did not have any investments subject to the fair value hierarchy.

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

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Inventory

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

Inventory balances at September 30, 2018 and 2017 are as follows:

	2018	2017
Fuel and lubes	\$ 2,558,368	\$ 1,404,373
Materials and supplies	8,630,153	9,085,514
 Total	 11,188,521	 10,489,887
Allowance for obsolescence	(692,903)	(692,903)
 Inventory, net	 \$ 10,495,618	 \$ 9,796,984

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, CPUC approved to change the LEAC tariff to a Fuel Adjustment Charge (FAC). It also authorized on an interim basis through the next regulatory session to adjust the fuel adjustment charge, in the event the MOPS monthly pricing to CUC equals or exceeds a 4.5% differential in the average per gallon cost of fuel used in the calculation of the then current FAC. In such event, CUC shall change the FAC rate to reflect the higher/lower MOPS price and shall promptly provide calculations and supporting work papers to the Commission. 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.

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

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Fuel Costs, continued

Subsequent approved FAC rates for 2018 and 2017 are as follows:

Effective Dates	Rate
October 1, 2017 to November 30, 2017	\$ 0.16886
December 1, 2017 to January 31, 2018	\$ 0.18231
February 1, 2018 to May 31, 2018	\$ 0.20109
June 1, 2018 to September 30, 2018	\$ 0.22317

The unbilled fuel cost recovery at September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
At beginning of year	\$ 7,745,942	\$ 8,290,320
Change in recovery of fuel costs	<u>(2,180,873)</u>	<u>(544,378)</u>
At end of year	<u>\$ 5,565,069</u>	<u>\$ 7,745,942</u>

Capital Assets and Depreciation

Capital assets consist of utility plant (including infrastructure), administrative equipment and construction-in-progress. Capital assets are 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 Unit of the CNMI Government)

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Capital Assets and Depreciation, continued

CUC's current policy is to capitalize items in excess of \$5,000. The costs of acquisition and construction of equipment and facilities are recorded as construction-in-progress until such assets are completed and placed in service, at which time CUC commences recording depreciation expense. CUC capitalizes interest cost on borrowings incurred during the new construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the estimated useful lives of the assets. There was no capitalized interest for the fiscal years ending September 30, 2018 and 2017.

Compensated Absences

Compensated absences are accrued and reported as a liability in the period earned.

The liability at September 30, 2018 and 2017 is as follows:

	2018	2017
Total compensated absences, beginning of year	\$ 1,030,574	\$ 1,094,126
Annual leave earned	813,671	769,641
Annual leave used	(791,576)	(833,193)
Total compensated absences, end of year	\$ 1,052,669	\$ 1,030,574

No liability is recorded for non-vesting accumulating rights to receive sick leave benefits. An employee cannot carry over to the following calendar year accumulated annual leave in excess of three hundred sixty (360) hours. However, any annual leave accumulated in excess of 360 hours as of the end of the calendar year can be converted to sick leave on the last day of the calendar year.

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

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Net Position

Net position represents the residual interest in CUC's assets after liabilities while net deficit represents the excess of liabilities over assets. Net position consists of three sections: invested in capital assets, net of related debt; restricted regulatory expenses and preferred stocks; and unrestricted. Net position invested in capital assets, net of debt includes capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of debt service reserve.

Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. CUC's restricted net position as of September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
CDA Preferred Stock	<u>\$ 45,000,000</u>	<u>\$ 45,000,000</u>

Prioritization and Use of Available Resources

When both restricted and unrestricted resources are available for use, it is CUC's policy to use unrestricted resources first, then restricted resources as they are needed, unless there are legal documents or contracts that prohibit doing this, therefore, using other available revenues to fund these ongoing expenditures.

Retirement Plan

CUC contributes to the Northern Mariana Islands Retirement Fund's (the Fund) defined benefit plan (DB Plan) and defined contribution plan (DC Plan), a cost sharing, and multi-employer plan (the 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).

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

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, continued

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, 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 its 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 defined account shall continue with respect to employees who do not terminate membership in the DB Plan.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. CUC is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. The DC Plan by its nature is fully funded on a current basis from employer and member contributions. Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contribution plus any earnings thereon. With the passage of Public Law 17-82 in September 11, 2013, the membership to the DC Plan became voluntary.

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

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Defined Contribution Plan (DC Plan), continued

CUC's aggregate contributions to the Retirement Fund for the years ended September 30, 2018, 2017 and 2016 were \$386,706, \$370,704, and \$412,343, respectively.

The amount CUC recognized as payable to the Retirement Fund prior to the creation of the Settlement Fund totaled \$3,469,797 and \$3,452,169 as of September 30, 2018 and 2017, respectively.

Medical and Life Insurance Benefits

In addition to providing pension benefits, the CNMI Government also ensures that employees are provided with medical and life insurance benefits. The CNMI Government created the Group Health and Life Insurance Trust Fund ("Trust Fund"), held in trust and administered by the Northern Mariana Islands Retirement Fund (NMIRF). CUC contributes to the Group Health and Life Insurance program. This is open to active employees who work at least 20 hours per week and to retired CNMI Government employees who retire as a result of length of service, disability or age, as well as their dependents. Life insurance coverage is to be provided by a private carrier. Contributions from employees and employers are based on rates as determined by NMIRF Board of Trustees. Employee deductions are made through payroll withholdings.

Revenue and Expense Recognition

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

Power, water and sewer sales are recorded as billed to customers on a monthly cycle billing basis. At the end of each month, unbilled revenues are accrued for each cycle based on the subsequent cycle billing. Unbilled receivables included in current earnings at September 30, 2018 and 2017 are \$6,387,692 and \$5,468,286, respectively.

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.

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

Notes to Financial Statements
September 30, 2018 and 2017

(2) Summary of Significant Accounting Policies, Continued

Contingencies

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

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

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

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

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

Notes to Financial Statements
September 30, 2018 and 2017

(3) Accounts Receivable – Utility

Account receivable – utility as of September 30, 2018 and 2017 summarized by location and customer classification are as follows:

	2018	2017
BY LOCATION		
SAIPAN		
COMMERCIAL	\$ 7,477,005	\$ 6,574,912
RESIDENTIAL	\$ 10,320,195	\$ 9,633,507
GOVERNMENT	\$ 34,504,638	\$ 37,888,081
	\$ 52,301,838	\$ 54,096,500
TINIAN		
COMMERCIAL	\$ 1,779,907	\$ 1,885,323
RESIDENTIAL	\$ 281,973	\$ 312,682
GOVERNMENT	\$ 1,034,270	\$ 1,763,387
	\$ 3,096,150	\$ 3,961,392
ROTA		
COMMERCIAL	\$ 217,870	\$ 172,597
RESIDENTIAL	\$ 231,151	\$ 190,761
GOVERNMENT	\$ 1,292,068	\$ 1,124,749
	\$ 1,741,090	\$ 1,488,107
TOTAL BILLED	\$ 57,139,078	\$ 59,545,999
UNBILLED	\$ 6,387,692	\$ 5,468,286
GRAND TOTAL	\$ 63,526,770	\$ 65,014,285

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

Notes to Financial Statements
September 30, 2018 and 2017

(3) Accounts Receivable – Utility, Continued

By Customer Classification

	2018	2017
BILLED		
COMMERCIAL	\$ 9,474,782	\$ 8,632,832
RESIDENTIAL	10,833,319	10,136,950
GOVERNMENT	36,830,976	40,776,217
UNBILLED	6,387,692	5,468,286
	63,526,770	65,014,285
Allowance for uncollectible accounts	(50,015,796)	(54,436,379)
	\$ 13,510,974	\$ 10,577,906

(4) Allowance for Uncollectible Accounts

Changes in allowance for uncollectible accounts for the years ended September 30, 2018 and 2017 are as follows:

	2018	2017
Total allowance, beginning of year	\$ 55,243,617	\$ 48,414,608
Provision of uncollectible accounts	4,556,800	6,829,009
Bad debts recovery	(9,025,697)	-
Accounts written-off	-	-
Total allowance, end of year	\$ 50,774,721	\$ 55,243,617
Accounts Receivable - Utility (Note 3)	\$ 50,015,796	\$ 54,436,379
Notes receivable (Note 5)	37,478	85,791
Other receivable (Note 6)	721,447	721,447
Total allowance, end of year	\$ 50,774,721	\$ 55,243,617

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

Notes to Financial Statements
September 30, 2018 and 2017

(5) Notes Receivable

CUC allows customers to settle their outstanding utilities through issuance of promissory notes with terms ranging from 6 months to 10 years at an interest rate of 12% per annum.

A summary of the outstanding notes receivable as of September 30, 2018 and 2017 is as follows:

	2018	2017
Current portion, net of allowance of \$21,957	\$ 94,865	\$ 123,180
Noncurrent portion, net of allowance of \$15,521	53,077	34,766
	\$ 147,942	\$ 157,946

(6) Other Current Assets

Other assets as of September 30, 2018 and 2017 consist of the following:

	2018	2017
Prepayments	\$ 533,025	\$ 1,294,298
Temporary facility	-	104,412
Employee advances and travel advances	37,496	12,490
Other receivables, net of allowance of \$721,447	119,412	109,869
	\$ 689,933	\$ 1,521,069

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

Notes to Financial Statements
September 30, 2018 and 2017

(7) Due from Grantor Agencies

CUC is a recipient of direct federal awards and sub-recipient of federal grants received by the CNMI central government from various U.S. federal agencies. CUC records grants-in-aid for construction or acquisition of facilities and equipment as capital contributions. Grant disbursements over receipts are recognized as due from grantor agencies until funds are received in accordance with grant terms and conditions.

Changes in the due from grantor agencies account for the years ended September 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 5,007,907	\$ 6,234,426
Deductions - cash receipts from grantors	(10,316,739)	(14,475,520)
Additions - program outlays	<u>6,413,400</u>	<u>13,249,001</u>
Balance at end of year	<u>\$ 1,104,568</u>	<u>\$ 5,007,907</u>

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

Notes to Financial Statements
September 30, 2018 and 2017

(8) Capital Assets

A summary of the changes in capital assets for the years ended September 30, 2018 and 2017 is as follows:

	Estimated Useful Lives	Balance at October 1, 2017	Additions	Disposals	Adjustments/Transfers	Balance at September 30, 2018
Utility plant in service						
Electric plant	25 years	\$ 147,485,242	\$ 47,290,639	\$ (41,683,821)	\$ 4,406,155	\$ 157,498,215
Water plant	25 years	74,365,783	8,341,058	(10,205,917)	6,570,203	79,071,127
Sewer plant	25 years	51,880,772	3,132,776	(3,338,846)	2,844,378	54,519,080
Administrative equipment	3-5 years	3,980,428	185,323	(172,851)	-	3,992,900
		277,712,225	58,949,796	(55,401,435)	13,820,736	295,081,322
Accumulated depreciation		(200,087,618)	(7,693,216)	1,969,935	-	(205,810,899)
Depreciable assets, net		77,624,607	51,256,580	(53,431,500)	13,820,736	89,270,423
Construction work-in progress		26,219,086	5,778,794	-	(13,989,070)	18,008,810
Capital assets, net		\$ 103,843,693	\$ 57,035,374	\$ (53,431,500)	\$ (168,334)	\$ 107,279,233
	Estimated Useful Lives	Balance at October 1, 2016	Additions	Disposals	Adjustments/Transfers	Balance at September 30, 2017
Utility plant in service						
Electric plant	25 years	\$ 137,226,701	\$ 9,815,035	\$ -	\$ 443,506	\$ 147,485,242
Water plant	25 years	70,341,946	269,376	-	3,754,461	74,365,783
Sewer plant	25 years	50,581,548	637,166	-	662,058	51,880,772
Administrative equipment	3-5 years	3,586,825	133,873	-	259,730	3,980,428
		261,737,020	10,855,450	-	5,119,755	277,712,225
Accumulated depreciation		(191,977,366)	(8,110,252)	-	-	(200,087,618)
Depreciable assets, net		69,759,654	2,745,198	-	5,119,755	77,624,607
Construction work-in progress		22,876,987	9,146,841	-	(5,804,742)	26,219,086
Capital assets, net		\$ 92,636,641	\$ 11,892,039	\$ -	\$ (684,987)	\$ 103,843,693

Included in utility plant in service adjustments/transfers for fiscal years ended September 30, 2018 and 2017 are completed projects transferred from construction work-in-progress to utility plant in service of \$13,820,736, and \$5,119,755, respectively.

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

Notes to Financial Statements
September 30, 2018 and 2017

(8) Capital Assets, Continued

Depreciation expense for the years ended September 30, 2018 and 2017 is \$7,740,150 and \$8,110,251, respectively.

CUC entered into several construction contracts during fiscal years 2018 and 2017 for improvements, rehabilitation and replacement of facilities, and other capital projects. As of September 30, 2018, CUC had outstanding construction contracts totaling \$2,445,557 that will be financed from operating funds and federal awards.

(9) Security Deposits

Pursuant to 4 CMC § 8143, as amended by Public Law 16-17, CUC shall collect one month security deposits per residential customer account. Such deposits shall be placed in an interest bearing trust fund and shall not be used for any other purpose.

Summarized below is the summary of security deposits including accrued interest as of September 30, 2018 and 2017:

	2018	2017
Electric	\$ 10,521,498	\$ 10,491,729
Water	678,937	678,288
Sewer	225,661	207,976
Total security deposits	11,426,096	11,377,993
Accrued interest on security deposits	570,386	557,395
Security deposits, including interest	11,996,482	11,935,388
Security deposits, including interest	11,996,482	11,935,388
Restricted cash	12,155,603	10,404,546
Accumulated security deposits used for operating expenditures (excess of restricted cash over deposits)	\$ (159,121)	\$ 1,530,842

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

Notes to Financial Statements
September 30, 2018 and 2017

(10) Long-term Debt

Long-term debt at September 30, 2018 and 2017 is as follows:

	2018	2017
Loan payable to Commonwealth Ports Authority, a component unit of the CNMI Government, principal of \$3,385,131, interest at 6.25% per annum, with a maturity date of October 31, 2017. Principal and interest is due in monthly payments of \$38,008.	\$ -	\$ 3,385,131
Current maturities	-	(3,385,131)
Long-term debt, net of current portion	\$ -	\$ -

Interest expense on long-term debt for the years ended September 30, 2018 and 2017 was \$0 and \$73,256, respectively, and is presented as a component of interest and distribution expense in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Changes in long-term debt for the fiscal years ended September 30, 2018 and 2017 are as follows:

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

Notes to Financial Statements
September 30, 2018 and 2017

(11) Due to Primary Government

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, 2018 and 2017, CUC recognized an outstanding payable to the CNMI Government in the amount of \$8,288,990 and \$7,981,211, respectively. CUC accrued OPA fees of \$307,777 in 2018 and \$503,708 in 2017. CUC owes the CNMI government OPA fees of approximately \$9 million as of September 30, 2014 based on 1% of CUC's operations budget excluding fuel costs. CUC's management and OPA have initiated negotiations to reconcile CUC's payable to the CNMI Government for OPA fees; however, no settlement agreement has been formalized as of September 30, 2018.

On September 26, 2011, the Appropriations and Budget Authority Act of 2012 (Public Law 17-55) was signed into law. Section 601 of Public Law 17-55 authorizes the CNMI Secretary of Finance to deduct the 1% due to the OPA from CUC from the monthly utility costs of the government. No application of payments were made as of September 30, 2018.

(12) Preferred Stocks Issued to Commonwealth Development Authority

On October 2, 2008, Public Law 16-17 or the Commonwealth Utilities Corporation Act of 2008 authorized CUC to issue shares of cumulative, non-convertible, non-transferable preferred stock valued at \$45,000,000 to CDA.

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

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

On May 7, 2009 the MOA was signed by officials of CUC and CDA. The MOA was subsequently approved by the Commonwealth Public Utilities Commission.

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

Notes to Financial Statements
September 30, 2018 and 2017

(12) Preferred Stocks Issued to Commonwealth Development Authority, Continued

Pursuant to the terms of the MOA, the dividend payments for the first three years after issuance of the stocks are to be amortized and interest free over a 15-year period. Although the preferred stock certificates have not been physically issued, CUC is of the opinion that CDA has constructive receipt of the preferred shares through the execution of the MOA.

On August 17, 2016, CUC entered into an agreement with CDA for the total amount of unpaid dividend payments owed to CDA and agreed to a dividend of \$4,320,000 for the year ended September 30, 2016. The agreement states that CUC will make quarterly dividend payments of \$270,000 beginning October 1, 2016, as required by the preferred stock agreement, which represents the full amount of the quarterly dividend due. Dividends payable as of September 30, 2018 and 2017 amounted to \$1,620,000 and \$1,800,000, respectively.

(13) Risk Management

The CNMI government is a self-insured entity. The government has limited its general liability to individuals to \$100,000 by statute. For this reason, the government does not maintain any insurance on its buildings or employees. As an autonomous agency, CUC is not required to follow the CNMI government's policy of self-insurance and may insure some of its assets.

CUC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. CUC currently does not maintain insurance coverage with respect to its inventory and utility plant. In the event of a loss, CUC will be self-insured for the entire amount. CUC currently reports all of its risk management activities as incurred. No provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

CUC does, however, require performance bonds on all of its construction projects.

(14) Commitments and Contingencies

Commitments

At September 30, 2018, CUC had commitments of \$2,445,577 for construction, purchases of inventory, and acquisition of property and equipment, all of which are expected to be incurred in 2019.

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

Notes to Financial Statements
September 30, 2018 and 2017

(14) Commitments and Contingencies, Continued

Lease Commitments

CUC entered into a lease agreement for office space in Joeten Dandan Building for a term of five years commencing in December 2016 and expiring in December 2021. The annual lease payment is \$166,605.

CUC also entered into a lease agreement for lease of office/warehouse space for its Power Division in Saipan commencing in December 2015 and expiring in June 2018. In June 2018, the lease was renewed for another two years and will expire in June 2020. The annual lease payment is \$67,184.

CUC also entered into a lease agreement for office space in Rota for a term of six years commencing in December 2012 and expiring in December 2018. The Rota lease is currently on a month to month basis. The annual lease payment is \$15,600.

Future lease payments are as follows:

Years ending September 30, 2019	\$ 306,849
2020	257,501
2021	166,605
2022	<u>34,708</u>
	<u>\$ 765,663</u>

Rent expense totaled \$277,485 in 2018 and \$253,740 in 2017.

Contingencies

Federal Funded Programs

CUC participates in a number of federally assisted grant programs funded by the United States of America Federal government. These programs are subject to financial and compliance audits to ascertain if federal laws and regulations have been followed. There were no accumulated questioned costs as of September 30, 2018 and 2017.

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.

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

Notes to Financial Statements
September 30, 2018 and 2017

(14) Commitments and Contingencies, Continued

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

1. The reformation of CUC’s management, finances and operations;
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 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.

The SO₂ projects continue under the direction of the Court’s appointed Engineering and Environmental Management Company (EEMC) – Gilbane Federal – pursuant to the provisions of the Stipulated Order entered on September 26, 2014. Progress on outstanding issues under Court order are projected to be completed in 2020 with consideration by the Court to terminate SO₂ provisions along with a continuing obligation to fund the TMO fund for an additional five years as a maintenance reserve for SO₂ funded improvements.

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

Notes to Financial Statements
September 30, 2018 and 2017

(15) Liability for Estimated Environmental Remediation Costs

CUC is involved in environmental remediation and ongoing compliance as discussed in Note 14.

On March 10, 2011, CUC received an order from the U.S. EPA, which requires CUC to perform cleanup activities of Power Plants 1 and 2, pursuant to the National Oil and Hazardous Substances Pollution Contingency Plan, which appears at Title 40, CFR Part 300 and paragraphs 12 and 14 of SO₂ for Preliminary Injunctive Relief. On April 26, 2017, CUC received an assessment to reimburse the United States Coast Guard for the costs incurred for oil discharge pollution removal at CUC Power Plants 1 and 2 totaling \$7,809,537. The accompanying financial statements reflect an accrual for these remedial activities. These assessments are still outstanding.

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 \$2,131,696 in costs related to the Site as of January 31, 2016. The financial statements include an accrual for these response costs. These assessments are still outstanding.

(16) 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 have not experienced any significant delays due to its major suppliers.

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

Notes to Financial Statements
September 30, 2018 and 2017

(17) Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported statement of revenues, expenses and changes in net position.

(18) Subsequent Events

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through May 28, 2019, which is the date the financial statements were available to be issued. On October 25, 2018, Super Typhoon Yutu hit the islands of Saipan and Tinian causing major destruction island wide. The Commonwealth Utilities Corporation's facilities were damaged during the typhoon and the preliminary assessment of damages is approximately \$20 million.

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

Supplementary Information

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

For the Year Ended September 30, 2018

	Power	Water	Sewer	Administrative and General	Elimination	Total
Operating revenues:						
Governmental	\$ 6,223,081	\$ 4,834,715	\$ 4,141,413	\$ -	\$ (1,465,122)	\$ 13,734,087
Commercial	15,471,346	2,990,796	2,026,763	-	-	20,488,905
Residential	8,430,601	5,829,693	748,145	-	-	15,008,439
Subtotal	30,125,028	13,655,204	6,916,321	-	(1,465,122)	49,231,431
FAC - Fuel charge	52,747,298	-	-	-	(3,194,024)	49,553,274
Other	450,129	83,246	21,936	-	-	555,311
	83,322,455	13,738,450	6,938,257	-	(4,659,146)	99,340,016
Bad debt expense	4,157,099	(6,018,807)	(2,695,092)	-	-	(4,556,800)
Net operating revenues	87,479,554	7,719,643	4,243,165	-	(4,659,146)	94,783,216
Operating expenses:						
Fuel, lube and taxes	50,566,426	-	-	-	-	50,566,426
General and administrative	3,393,899	3,106,728	403,070	12,260,731	-	19,164,428
Maintenance	5,476,657	1,157,295	867,125	108,607	-	7,609,684
Depreciation	3,560,723	1,873,838	1,836,258	469,331	-	7,740,150
Supplies	251,071	319,169	63,507	269,855	-	903,602
Utility consumption	702,676	3,322,892	1,038,315	231,135	(4,659,146)	635,872
Other (bank charges)	-	-	-	788,957	-	788,957
Total operating expenses	63,951,452	9,779,922	4,208,275	14,128,616	(4,659,146)	87,409,119
Earnings from operations						
before allocation of common cost	23,528,102	(2,060,279)	34,890	(14,128,616)	-	7,374,097
Allocation of common costs	(9,313,357)	(3,231,844)	(1,633,933)	14,179,135	-	-
Earnings from operations	\$ 14,214,745	\$ (5,292,123)	\$ (1,599,043)	\$ 50,519	\$ -	\$ 7,374,097

See accompanying notes to financial statements.

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

Supplementary Information
Schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis
For the Year Ended September 30, 2018

	Power	Water	Sewer	Administrative and General	Elimination	Total
Earnings from operations	\$ 14,214,745	\$ (5,292,123)	\$ (1,599,043)	\$ 50,519	\$ -	\$ 7,374,097
Non-operating revenues (expenses):						
Interest income	287,577	219,997	118,026	-	-	625,600
Miscellaneous income	111,029	33,895	13,145	-	-	158,069
Amortization of marketing assistance	1,100,000	-	-	-	-	1,100,000
Revision of estimated billings	-	21,509	(3,888,875)	-	-	(3,867,366)
Settlement income	(63,372)	(11,417)	(3,506)	-	-	(78,295)
Contribution to the CNMI government	(259,628)	(31,672)	(16,478)	-	-	(307,778)
Stipulated order penalties	(15,000)	-	-	-	-	(15,000)
Bad debt recovery	7,821,134	1,204,563	-	-	-	9,025,697
Interest and distribution expense	(1,110,234)	-	-	-	-	(1,110,234)
Total non-operating revenues (expenses), net	<u>7,871,506</u>	<u>1,436,875</u>	<u>(3,777,688)</u>	<u>-</u>	<u>-</u>	<u>5,530,693</u>
Earnings before change in recovery of fuel costs	22,086,251	(3,855,248)	(5,376,731)	50,519	-	12,904,790
Change in recovery of fuel costs	<u>(2,180,873)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,180,873)</u>
Net earnings before capital contributions and federal grants	19,905,378	(3,855,248)	(5,376,731)	50,519	-	10,723,917
Capital contributions and federal grants	<u>4,722,697</u>	<u>2,384,967</u>	<u>2,100,461</u>	<u>-</u>	<u>-</u>	<u>9,208,125</u>
Change in net position	<u>\$ 24,628,075</u>	<u>\$ (1,470,281)</u>	<u>\$ (3,276,270)</u>	<u>\$ 50,519</u>	<u>\$ -</u>	<u>\$ 19,932,042</u>

See accompanying notes to financial statements.

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

UNIFORM GUIDANCE REPORTS

For The Year Ended September 30, 2018

**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), which comprise the statement of financial position as of September 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 28, 2019.

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) to determine the 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 the CUC’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding Nos. 2018-001 and 2018-002.

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 determination of financial statement amounts. 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*.

CUC's Response to Findings

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

Purpose of this Report

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



Saipan, Commonwealth of the Northern Mariana Islands
May 30, 2019

**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

We have audited the Commonwealth Utilities Corporation (CUC's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of CUC's major federal programs for the year ended September 30, 2018. CUC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of CUC's compliance.

Opinion on Each Major Federal Program

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, 2018.

Report on Internal Control over Compliance

Management of CUC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CUC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the CUC's 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.



Saipan, Commonwealth of the Northern Mariana Islands
May 30, 2019

**Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number/ Grantor ID No./ Pass Through Grantor's Number	Program or Award Amount	Receivable (Deferred) Revenue) from Grantor at September 30, 2017	Adjustments	Cash Receipt	Expen- ditures	Receivable (Deferred) Revenue) from Grantor at September 30, 2018
<u>U.S. Environmental Protection Agency</u>							
Direct Program:							
Consolidated Environmental Program	66.600-M-00T33711	40,912,704	4,415,978.12	2,436,682.71	4,431,763.67	2,452,468.26	-
Consolidated Environmental Program	66.600-M-00T33715	8,219,700	100,677.98	-	1,916,331.60	1,421,527.79	5,874.17
Consolidated Environmental Program	M-00T33717	4,910,000	-	-	1,898,908.96	2,082,520.47	183,611.51
Subtotal		54,042,404	4,516,656.10	2,436,682.71	7,847,004.23	5,956,516.52	189,485.68
<u>U.S. Department of the Interior</u>							
Direct Program							
USGS	OMIP CUC 2006-1	12,500	(12,500.00)	(12,500.00)	-	-	-
Bureau of Reclamation:							
Water Loss Reduction and Energy Savings	R13AP80017	294,967	45,555.43	-	45,555.43	-	-
Passed through the Government of the CNMI: Federal Portion							
Stipulated Order #2	CNMI-CIP-2010-3	4,050,000	(3.00)	(3.00)	-	-	-
Subtotal Federal Portion		50,106,242	33,052.43	(12,503.00)	45,555.43	-	-
<u>Local Matching Portion</u>							
Saipan Power Plant Improvement	15.875/-/-	-	-	-	-	-	-
Subtotal Local Matching Portion		50,106,242	33,052.43	(12,503.00)	45,555.43	-	-
<u>U.S. Department of Homeland Security</u>							
Federal Emergency Management Administration							
Typhoon Soudebor Claims	FEMA-DR-4235-MP	-	458,199.33	-	-	87,918.28	546,117.61
Puerto Rico Electric Power Company							
	PREPA	-	-	-	-	368,964.83	-
		\$ 104,148,646	5,007,907.86	2,424,179.71	7,892,559.66	6,413,399.63	1,104,568.12

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

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

(1) Scope of Audit

The Commonwealth Utilities Corporation (CUC) was established as a Public Corporation by the Commonwealth of the Northern Mariana Islands (CNMI) Public Law 4-47, effective October 1, 1985. CUC was given responsibility for supervising the construction, maintenance, operations, and regulation of all utility services, including power, sewage, refuse collections and water, provided however, that, whenever feasible, CUC shall contract for private businesses to assume its duties with respect to one or more of its divisions. CUC was also designated with the responsibility to establish rates, meter, and bill and collect fees in a fair and rational manner from all customers of utility services in order for CUC to become financially independent of appropriations by the Commonwealth Legislature. All projects of CUC that are funded either directly by U.S. Federal agencies through the CNMI or indirectly as loans from the Commonwealth Development Authority (CDA), and the U.S. Environmental Protection Agency are included in the scope of the Uniform Guidance. The U.S. Department of the Interior has been designated as CUC's cognizant agency.

A. Programs Subject to Uniform Guidance

All of the programs presented in the Schedule of Expenditures of Federal Awards are subject to the Uniform Guidance.

(2) Summary of Significant Accounting Policies

For purposes of preparation of the accompanying Schedule of Expenditures of Federal Awards, certain accounting procedures were followed, which help illustrate the authorizations and expenditures of the individual programs. The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting and is presented in accordance with 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). All authorizations represent the total allotment or grant awards received. All expenses and capital outlays are reported as expenditures.

Any federal funds expended in excess of federal funds received are recorded as a receivable from the grantor agency and any federal funds received in excess of federal funds expended are recorded as a payable to the grantor agency.

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

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

(2) Summary of Significant Accounting Policies, Continued

B. Indirect Cost Allocation

For fiscal year 2018, CUC had no indirect cost agreement with grantor agencies.

C. Matching Requirements

In allocating project expenditures between the federal share and the local share, a percentage is used based upon local matching requirements, unless funds are specifically identified to a certain phase of the project.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no

- Significant deficiency(ies) identified
that are not considered to be material
weaknesses? yes none reported

Noncompliance material to financial statements
noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no

- Significant deficiency(ies) identified
that are not considered to be material
weaknesses? yes none reported

Type of auditor’s report issued on compliance
for major federal programs: Unmodified

Any audit findings disclosed that are
required to be reported in accordance
with 2 CFR § 200.516 (a)? yes no

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

SECTION I – SUMMARY OF AUDITORS’ RESULTS, Continued

Federal Awards

Identification of Major Programs:

<u>CFDA No.</u>	<u>Description</u>	<u>Federal Expenditures</u>
66.600	Environmental Protection Consolidated Grants Support	\$ <u>5,956,517</u>
	Total major program expenditures	\$ <u>5,956,517</u>
	Total federal expenditures	\$ <u>6,413,400</u>
	Percentage of federal expenditures tested as major programs	<u>93%</u>

Dollar threshold used to distinguish between
Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee

 yes X no

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2018-001 Travel

Finding type: Significant Deficiency in Internal Control

Criteria:

Pursuant to CUC's Travel policy:

- a. The traveler is responsible to prepare and submit a travel voucher within 30 working days after the completion of travel.
- b. Trip reports should be as detailed as possible to provide information as to the actual activities covered by the trip.

Condition:

- a. For 20 or 25% of 79 travel authorizations selected, the Travel Voucher (TV) was submitted late; 10 or 13% were not dated; 25 or 32% were missing boarding passes, 7 or 9% were not liquidated.
- b. For 15 or 19% of 79 travel authorizations selected, the trip reports were not submitted together with the TV.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding No. 2018-001 Travel, Continued

Cause:

The cause of the above conditions is the lack of adherence to established policies and procedures regarding the liquidation of travel advances.

Effect:

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

Prior Year Status:

A similar condition was reported in the prior year audit as Finding 2017-001.

Recommendation:

CUC should adhere to its travel policy to ensure that all travelers comply with the policy.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding 2018-002 Human Resources

Finding type: Significant Deficiency in Internal Control

Criteria:

Employees should be paid pursuant to signed employment contracts and/or an approved notice of personnel action.

Condition:

Based on results of testing of personnel records, the following were noted:

- a. For 20 or 22% of 90 personnel records selected for testing, the rate used in calculating the payroll was not supported by an approved Notice of Personnel Action (NOPA) for the following:

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding 2018-002 Human Resources, Continued

Employee No	PPE	Pay Date	Rate Used	Remarks
156	8/5/18-8/18/18	8/18/2018	17.37	No updated NOPA to reflect rate change
180	8/5/18-8/18/18	8/18/2018	20.44	No updated NOPA to reflect rate change
230	3/4/18-3/17/18	3/28/2018	16.87	No updated NOPA to reflect rate change
752	4/15/18-4/28/18	5/9/2018	13.71	No updated NOPA to reflect rate change
1110	3/4/18-3/17/18	3/28/2018	17.32	No updated NOPA to reflect rate change
4245	3/4/18-3/17/18	3/28/2018	14.60	No updated NOPA to reflect rate change
5982	4/15/18-4/28/18	5/9/2018	24.03	No updated NOPA to reflect rate change
6504	4/15/18-4/28/18	5/9/2018	17.39	No updated NOPA to reflect rate change
8149	8/5/18-8/18/18	8/18/2018	24.42	No updated NOPA to reflect rate change
9990	8/5/18-8/18/18	8/18/2018	13.61	No updated NOPA to reflect rate change
10001	3/4/18-3/17/18	3/28/2018	13.25	No updated NOPA to reflect rate change
10044	3/4/18-3/17/18	0328/2018	11.19	No updated NOPA to reflect rate change
10087	4/15/18-4/28/18	5/9/2018	9.70	No updated NOPA to reflect rate change
10286	3/4/18-3/17/18	3/28/2018	10.51	No updated NOPA to reflect rate change
10358	4/15/18-4/28/18	5/9/2018	10.92	No updated NOPA to reflect rate change
10426	3/4/18-3/17/18	3/28/2018	10.51	No updated NOPA to reflect rate change
10442	4/15/18-4/28/18	5/9/2018	10.51	No updated NOPA to reflect rate change
16957	4/15/18-4/28/18	5/9/2018	10.51	No updated NOPA to reflect rate change
40239	3/4/18-3/17/18	3/28/2018	15.67	No updated NOPA to reflect rate change
76825	4/15/18-4/28/18	5/9/2018	16.08	No updated NOPA to reflect rate change

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

SECTION II – FINANCIAL STATEMENTS FINDINGS

Finding 2018-002 Human Resources, Continued

Cause:

The NOPAs subject for testing effective for the fiscal year ended September 30, 2018 were not provided to the auditor by the human resources department. CUC did not adhere to policies and procedures for the maintenance of Human Resources files.

Effect:

CUC is not in compliance with its regulations and there could be misstatements of payroll expenses. Potential fraud could exist and not be detected.

Prior Year Status:

A similar condition was reported in the prior year audit as Finding 2017-002.

Recommendation:

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

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no federal awards audit findings and questioned costs for fiscal year ending September 30, 2018.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

<u>Finding</u>	<u>Subject Matter</u>	<u>Current Year Status</u>
2017-001	Travel	Unresolved. Repeated as Finding , 2018-001
2017-002	Payroll processing	Unresolved. Refer to Finding 2018-002

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

SECTION IV – PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

Questioned Costs

The prior year Uniform Guidance report on compliance with the laws and regulations noted the following costs and comments that were unresolved at September 30, 2018:

Questioned costs as previously reported	\$	-
Questioned costs for fiscal year 2018 Single Audit		<u>-</u>
Unresolved questioned costs at September 30, 2018	\$	<u><u>-</u></u>



Commonwealth Utilities Corporation



May 30, 2019

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

Subject: Schedule of Findings and Questioned Costs for the year ended September 30, 2018

Dear Mr. Burger:

Please see below CUC's responses to the findings regarding CUC FY 2018 Audit:

Finding No. 2018-001 Travel

Condition:

- a. For 20 or 25% of 79 travel authorizations selected, the Travel Voucher (TV) was submitted late; 10 or 13% were not dated; 25 or 32% were missing boarding passes, 7 or 9% were not liquidated.

- b. For 15 or 19% of 79 travel authorizations selected, the trip reports were not submitted together with the TV.

Recommendation:

CUC should adhere to its travel policy to ensure that all travelers comply with the policy.

CUC Response:

CUC agrees with the finding.

Management's Corrective Action Plan:

CUC Travel Section will ensure that all inter-island travel and International Travel trip report should be submitted on a timely manner, travel documentations that are required to be submitted 15 days from return of travel. Travel Section will advise employee by email and courtesy phone call with submission of travel voucher and trip report. Missing boarding passes; employees would have to request from the airlines a duplicate copy of boarding passes. Travel Checklist will be given to every employee when picking up check from AP section and acknowledge by the employee.



Commonwealth Utilities Corporation



Finding 2018-002 Human Resources

Condition:

Based on results of testing of personnel records, the following were noted:

a. For 20 or 22% of 90 personnel records selected for testing, the rate used in calculating the payroll was not supported by an approved Notice of Personnel Action (NOPA).

Recommendation:

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

CUC Response:

CUC agrees with the finding.

Management's Corrective Action Plan:

HR Department is working diligently to make sure all employee documentations of change be in place to avoid or minimize any errors or future discrepancies. Although there were missing NOPAs from the employees' files, as listed in the attachments provided, the reflected pay rate changes made were approved accordingly prior to the Payroll Department making the adjustments.

Sincerely,

A handwritten signature in blue ink, appearing to read "GREG CRUZ".

GREG CRUZ
Chief Financial Officer