



COMMONWEALTH UTILITIES CORPORATION
(A COMPONENT UNIT OF THE COMMONWEALTH
OF THE NORTHERN MARIANA ISLANDS)

REPORT ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE
WITH THE UNIFORM GUIDANCE

YEAR ENDED SEPTEMBER 30, 2020



COMMONWEALTH UTILITIES CORPORATION
(A COMPONENT UNIT OF THE COMMONWEALTH
OF THE NORTHERN MARIANA ISLANDS)

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Utilities Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the Commonwealth Utilities Corporation (CUC), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), which comprise the statements of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 qualified audit opinion.

Basis for Qualified Opinion

Management has not adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was effective October 1, 2014. As discussed in note 2 to the financial statements, CUC has not recorded pension expense and related net pension asset or liability, deferred inflows of resources and deferred outflows of resources as of and for the years ended September 30, 2020 and 2019. GASB Statement No. 68 requires an employer to recognize its proportionate share of the collective pension expense, as well as the net pension asset or liability, deferred outflows of resources and deferred inflows of resources. The amount by which this departure would affect the assets and deferred outflows of resources, liabilities and deferred inflows of resources, net position and expenses of CUC has not been determined.

We were unable to determine the propriety of inventory quantities as we did not observe the inventory count as of September 30, 2020 and 2019.

Qualified Opinion

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion” paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth Utilities Corporation as of September 30, 2020 and 2019, and the changes in its net position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Economic uncertainties as a result of the COVID-19 coronavirus pandemic may negatively impact CUC’s future financial results as described in note 15 to the financial statements.

Our opinion is not modified with respect to this matter.

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 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB 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 an opinion on the financial statements that collectively comprise CUC's basic financial statements. The Schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis for the year ended September 30, 2020 (page 33) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraphs, the Schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis is 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 June 27, 2022 on our consideration of CUC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CUC's 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 CUC's internal control over financial reporting and compliance.

Deloitte & Touche LLC

June 27, 2022



COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)



MANAGEMENT'S DISCUSSION AND ANALYSIS Year Ended September 30, 2020

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, 2020, with comparative information for the fiscal years ended September 30, 2019 and 2018. We encourage readers to consider the information presented here in conjunction with the financial statements, related notes and supplementary information.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of this report presents 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 *Statement of Net Position* presents information on assets, liabilities and deferred outflows and 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 *Statement of Revenues, Expenses and Changes in Net Position* reports 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 *Statement of Cash Flows* reports 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 noncapital financing activities include operating grant proceeds.
- Cash flows from capital and related financing activities include the borrowing and repayment (principal and interest) of capital-related debt, the acquisition and construction of capital assets, and the proceeds of capital grants and contributions.
- Cash flows from investing activities include proceeds from sale of investments, receipt of interest and changes in the fair value of investments subject to reporting as cash equivalents. Outflows in this category include the purchase of investments.

Notes to the Financial Statements

Various notes provide additional information 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.



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



MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

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.

ANALYSIS OF BASIC FINANCIAL STATEMENTS

Condensed Statements of Net Position

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2018 (As Restated)</u>
Current assets	\$ 81,150,543	\$ 80,551,097	\$ 599,446	1%	\$ 70,785,226
Noncurrent assets	118,665,292	121,962,483	(3,297,191)	-3%	98,750,529
Deferred outflows of resources	<u>7,341,652</u>	<u>3,798,291</u>	<u>3,543,361</u>	93%	<u>5,565,069</u>
	\$ <u>207,157,487</u>	\$ <u>206,311,871</u>	\$ <u>845,616</u>	0%	\$ <u>175,100,824</u>
Current liabilities	\$ 29,014,154	\$ 34,819,412	\$ (5,805,258)	-17%	\$ 25,216,898
Noncurrent liabilities	17,332,035	18,708,451	(1,376,416)	-7%	21,251,189
Deferred inflows of resources	71,606	79,574	(7,968)	-10%	107,750
Net investment in capital assets	118,665,292	121,962,483	(3,297,191)	-3%	98,697,452
Restricted	45,000,000	45,000,000	-	0%	45,000,000
Unrestricted	<u>(2,925,600)</u>	<u>(14,258,049)</u>	<u>11,332,449</u>	-79%	<u>(15,172,465)</u>
	\$ <u>207,157,487</u>	\$ <u>206,311,871</u>	\$ <u>845,616</u>	0%	\$ <u>175,100,824</u>

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2018 (As Restated)</u>
Net operating revenues	\$ 82,065,552	\$ 75,803,719	\$ 6,261,833	8%	\$ 93,210,925
Operating expenses	<u>81,639,092</u>	<u>136,811,423</u>	<u>(55,172,331)</u>	-40%	<u>87,409,119</u>
Operating income (loss)	426,460	(61,007,704)	61,434,164	-101%	5,801,806
Nonoperating revenues, net	<u>5,209,953</u>	<u>87,787,336</u>	<u>(82,577,383)</u>	-94%	<u>10,844,093</u>
Income before capital contributions from primary government and special item	5,636,413	26,779,632	(21,143,219)	-79%	16,645,899
Capital contributions from primary government	2,398,845	959,655	1,439,190	150%	2,794,725
Special item: Water well lease expense	<u>-</u>	<u>(3,559,840)</u>	<u>3,559,840</u>	-100%	<u>-</u>
Change in net position	8,035,258	24,179,447	(16,144,189)	-67%	19,440,624
Net position at beginning of year	<u>152,704,434</u>	<u>128,524,987</u>	<u>24,179,447</u>	19%	<u>109,084,363</u>
Net position at end of year	\$ <u>160,739,692</u>	\$ <u>152,704,434</u>	\$ <u>8,035,258</u>	5%	\$ <u>128,524,987</u>

For the year ended September 30, 2020, CUC incurred operating income of \$0.4 million as compared to an operating loss of \$61.0 million for the year ended September 30, 2019 and operating income of \$5.8 million for the year ended September 30, 2018. Of this amount, approximately \$50 million was for expenses incurred from Typhoon Yutu in 2019, of which \$8 million was directly reimbursed by the Federal Emergency Management Agency (FEMA) and \$36 million was paid by the CNMI Government on behalf of CUC.



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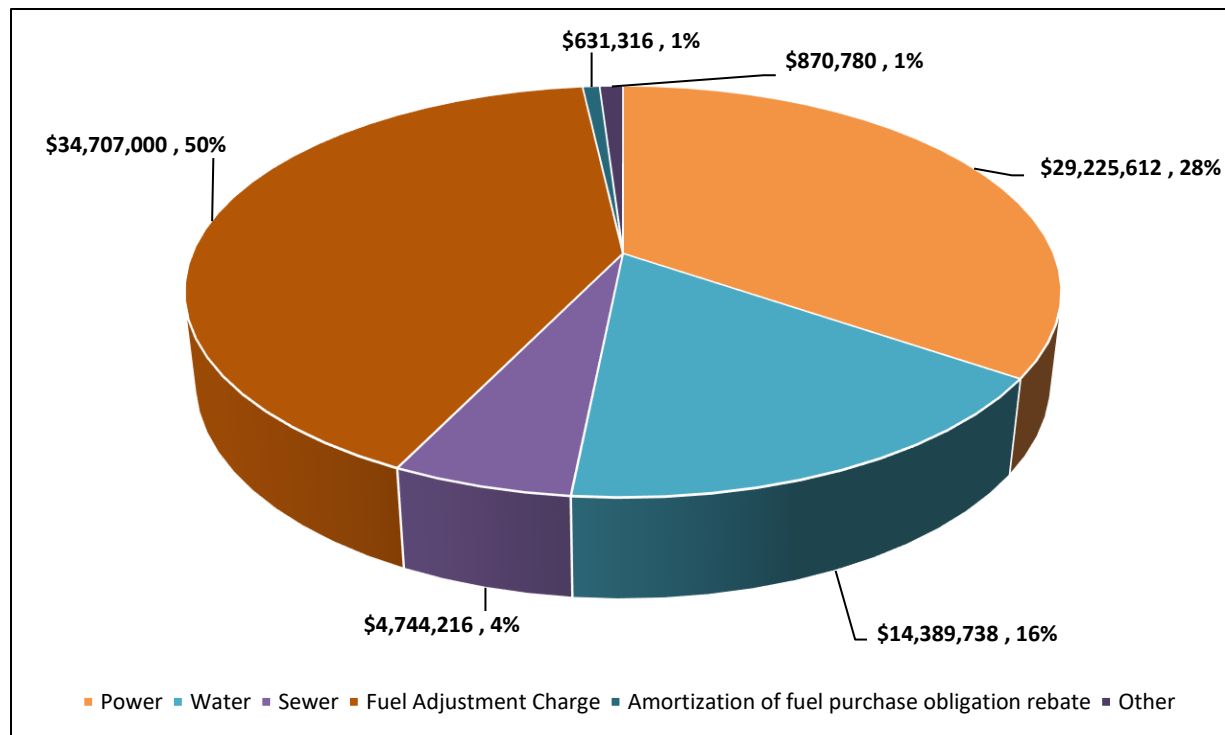
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2020

ANALYSIS OF BASIC FINANCIAL STATEMENTS, CONTINUED

Financial Highlights

Operating Revenues

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2018</u>
Power	\$ 29,225,612	\$ 23,170,199	\$ 6,055,413	26%	\$ 28,659,906
Water	14,389,738	12,677,951	1,711,787	14%	13,655,204
Sewer	4,744,216	3,214,875	1,529,341	48%	6,916,321
Fuel adjustment charge	34,707,000	41,453,097	(6,746,097)	-16%	46,880,983
Amortization of fuel purchase obligation rebate	631,316	1,100,000	(468,684)	-43%	1,100,000
Other	<u>870,780</u>	<u>727,230</u>	<u>143,550</u>	20%	<u>555,311</u>
	\$ <u>84,568,662</u>	\$ <u>82,343,352</u>	\$ <u>2,225,310</u>	3%	\$ <u>97,767,725</u>



Operating Expenses

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2018</u>
Fuel, lube and taxes	\$ 37,875,495	\$ 44,703,784	\$ (6,828,289)	-15%	\$ 50,566,426
General and administrative	19,372,870	36,254,757	(16,881,887)	-47%	19,164,428
Maintenance	11,731,862	44,372,747	(32,640,885)	-74%	7,609,684
Depreciation	10,213,930	8,978,206	1,235,724	14%	7,740,150
Utility consumption	888,323	629,070	259,253	41%	635,872
Supplies	666,214	1,041,730	(375,516)	-36%	903,602
Other	<u>890,398</u>	<u>831,129</u>	<u>59,269</u>	7%	<u>788,957</u>
	\$ <u>81,639,092</u>	\$ <u>136,811,423</u>	\$ <u>(55,172,331)</u>	-40%	\$ <u>87,409,119</u>



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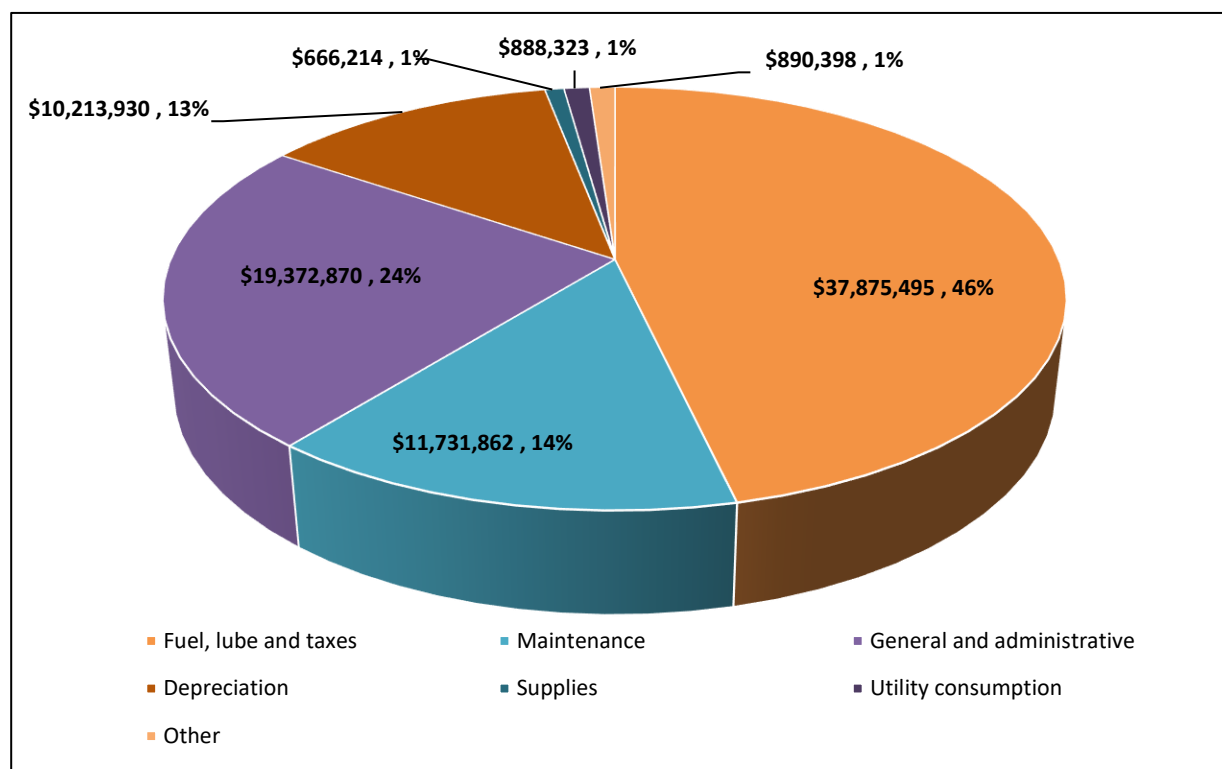
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2020



ANALYSIS OF BASIC FINANCIAL STATEMENTS, CONTINUED

Financial Highlights, Continued

Operating Expenses, Continued



Capital Assets

As of September 30, 2020, 2019 and 2018, CUC had \$118,665,292, \$121,962,483 and \$98,697,452, respectively, net investment in capital assets, net of accumulated depreciation and amortization where applicable, including electric plant, water plant, sewer plant, administrative equipment and construction in progress. For additional information regarding capital asset activity, refer to note 7 in the accompanying notes to the financial statements.

	<u>2020</u>	<u>2019</u>	<u>2018</u> (As Restated)
Utility plant in service:			
Electric plant	\$ 181,681,008	\$ 181,517,533	\$ 154,009,053
Water plant	85,703,444	84,781,469	79,258,533
Sewer plant	55,835,152	54,595,878	54,114,298
Administrative equipment	<u>4,405,904</u>	<u>4,384,553</u>	<u>3,964,155</u>
	327,625,508	325,279,433	291,346,039
Less accumulated depreciation and amortization	<u>(215,982,647)</u>	<u>(205,821,517)</u>	<u>(203,600,238)</u>
Depreciable assets, net	111,642,861	119,457,916	87,745,801
Construction in progress	<u>7,022,431</u>	<u>2,504,567</u>	<u>10,951,651</u>
	<u>\$ 118,665,292</u>	<u>\$ 121,962,483</u>	<u>\$ 98,697,452</u>



COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2020



EXECUTIVE SUMMARY AND OUTLOOK

Overview

FY2020 was the cleanup year following Typhoon Yutu. Even though CUC came through the largest environmental event in recorded history with limited damage to the bulk of its systems, the real damage was to residential properties in Koblerville and surrounding areas. CUC lost wooden power poles and only two concrete poles were damaged due to flying debris but the overall damage to the power supply was very small. Power was restored within three days to the hospital from Power Plant #4. What really hurt CUC was the loss of tourism due to closure of the airport facilities pending decisions with FEMA and the CNMI on establishing their delivery priorities along with the cleanup of the airport property which lost all of its manway and building systems. At the same time, revenue generating capacity was damaged until plans for reopening the airport could be done. The water supply was restored to 90% within one month following the storm and fully operational by early January. Wastewater was not damaged.

The primary concern for water and wastewater was the assignment of backup generators to well sites, booster stations, and lift stations to establish operational capacity to the water supply and distribution systems, along with power to push wastewater through force mains to reach gravity flow sections. Essentially, CUC came through with an improved sense of being better prepared and more resilient than in prior years. The level of improvement being pursued by CUC in all three utility areas is remarkable and this is primarily due to the availability of federal funds from a variety of sources that are allowing CUC to repair, replace, upsize, and improve on a variety of systems.

But we still have a number of critical items to address. Power generation is a given and discussions are happening that will consider developing a plan for the construction of a new power plant under the control of an Independent Power Producer. In addition, getting the Sadog Tasi treatment plant upgraded with a new clarifier, fine bubbler system, grit removal system, and sludge press, to name but a few improvements, will greatly extend life expectancy and potentially expand the capacity of that plant for years to come. FEMA support for additional concrete poles on all three islands will add a major component of resiliency in our power supply. Expanding efforts to control non-revenue water loss will be the next area of focus because getting that average percentage down to 30% from 65% is the only time it makes sense to push for desalination.

Power Generation

The aftermath of Typhoon Yutu turned out to be of less concern than was anticipated from a storm that size. Maintenance was being performed and funding was not an issue at that time. The siding of Power Plant #1 was damaged and plans to get grant support from FEMA are part of the future strategy to get that facility rewrapped with a greatly updated exterior shell. Installation of two new incinerators to handle remaining sludge oil and oily rags were brought to the CNMI as part of the SO₂ requirements and are being prepared for operation in FY2021 at Power Plant #1. Power Plant #4 is under extensive repair to replace the oil storage tanks with four new 20,000-gallon units that are tied to a new oil/water separator in case of a spill. Drainage improvements are also being added to PP#4 to correct old drainage problems that avoided sending excess water to the oil/water separators.



COMMONWEALTH UTILITIES CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2020



EXECUTIVE SUMMARY AND OUTLOOK, CONTINUED

Power Transmission

On Tinian, Telesource's IPP contract came up for renewal and an agreement was reached which would give Telesource two years to put the power plant back into a greatly improved condition following the destruction of Typhoon Yutu that did considerable damage to the building and their auxiliary mechanical systems. Telesource failed to maintain insurance on the facility which was required by the IPP contract with CUC and as a result, are using their own funds to put the facility back in shape and may potentially rebid to recapture their recent investment. The renewal bid for Telesource comes due in March 2022.

Power Transmission and Distribution

Following Typhoons Yutu and Mangkut, FEMA made major investments in Tinian and Rota to repair down wooden poles with concrete. Plans are still developing for further power pole replacements and potentially transformers as they are aging and consideration is being given to plan for their replacement.

On Saipan, there are extensive plans being developed with the support of FEMA to run a new underground power line from Power Plant #1 to the hospital on Middle Road. CUC is also continuing to replace wooden poles with concrete to add additional resiliency to the feeder system. An additional 2,500 poles are being considered for the remaining number of wooden poles needing replacement along with transformers with 100 more for Tinian.

Water Operations

Over the course of FY2020, Water Operations has been affected by a loss of staffing that they have not been able to efficiently replace. Main breaks have been surging as a result of the power supply regularly dropping due to a variety of maintenance concerns, which causes surging of water lines as they refill and numerous main breaks due to age and condition.

The issue of PFOS/PFOA developed over the year and a solution has been implemented. CUC will procure ten (10) granular activated carbon units (GAC) from Calgon Carbon of Kentucky. Plans to use EDA funds are developing for the two large four-plex units but the initial delivery of those units is not estimated until FY2022.

At the same time, CUC has been looking at its pipeline projects and funding has been coming in to assist CUC to achieve a greater effort of pipeline replacement as well as replacement of failing metal tanks and enlargement of water storage tanks with concrete units. Again, the focus is on resiliency and long-life expectancy. The biggest problem CUC has now is its old asbestos concrete pipe which goes back to the Japanese era. Also, much of the early PVC was installed in the 1980's and is showing signs of fatigue. Presently, the loss of power which affects the wells causes pipelines to depressurize. When power comes back on, the surge and cyclonic forces of water, suction and pressure overwhelm old pipe systems at the weakest point which is joints, thrust blocks, valve connections, and saddles. Time and continued funding will be the solution to these breaks.

Rota and Tinian rarely have an issue with their systems and are not affected by major pressure variants nor frequent power disruptions.



COMMONWEALTH UTILITIES CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2020



EXECUTIVE SUMMARY AND OUTLOOK, CONTINUED

Wastewater Operations

Presently, Saipan is the only island affected by wastewater treatment. Over the course of the year, efforts have been made to begin adding improvements to both treatment facilities. These include pre-screening systems to remove debris and gravel at the front end of the plants and to replace the aging and failed sludge drying systems with new sludge press units. In addition, there have been two attempts to replace the central clarifying arm at Sadog Tasi; one contractor had difficulty acquiring a business license and one opposing bidder kept opposing the procurement. CUC will now incorporate the central clarifying arm in an upcoming bid to improve the whole plant.

Wastewater collection is still very challenging because of a sizeable percentage of the sewer mains are asbestos concrete or vitrus clay pipe. CUC suffers regular collapses of sewer mains due to age, vehicle traffic vibrations, weight over the pipeline, cracked pipes and so on. Repairs have slowed on these lines due to the lack of funding for normal maintenance which costs \$500,000 per segment to do it right. CUC used an alternative method of bypass piping until funding became available to perform repairs, manhole to manhole.

The Management's Discussion and Analysis for the year ended September 30, 2019 is set forth in CUC's report on the audit of financial statements, which is dated December 6, 2021. That Discussion and Analysis explains the major factors impacting the 2019 financial statements and can be viewed at the Office of the Public Auditor's website at www.opacnmi.com.

Request 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 its accountability for the funds it manages. Please direct any questions about this report or request for additional information about CUC's finances to:

Commonwealth Utilities Corporation
Attn: Chief Financial Officer (CFO)
P.O. Box 501220
Saipan, MP 96950

Or call (670) 664-4282

COMMONWEALTH UTILITIES CORPORATION

Statements of Net Position
September 30, 2020 and 2019

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents - unrestricted	\$ 32,015,077	\$ 29,056,244
Cash and cash equivalents - restricted	12,131,154	12,076,601
Total cash and cash equivalents	<u>44,146,231</u>	<u>41,132,845</u>
Accounts receivable - utility, net	5,395,948	5,670,809
Due from grantor agencies	7,067,556	9,765,753
Inventory, net	22,865,278	22,392,076
Notes receivable, net	196,385	108,793
Prepayments and other assets, net	1,479,145	1,480,821
Total current assets	<u>81,150,543</u>	<u>80,551,097</u>
Utility plant, at cost:		
Depreciable utility plant, net of accumulated depreciation	111,642,861	119,457,916
Non-depreciable utility plant	7,022,431	2,504,567
Total noncurrent assets	<u>118,665,292</u>	<u>121,962,483</u>
Total assets	<u>199,815,835</u>	<u>202,513,580</u>
Deferred outflows of resources:		
Unbilled fuel cost recovery	7,341,652	3,798,291
Total deferred outflows of resources	<u>7,341,652</u>	<u>3,798,291</u>
	<u>\$ 207,157,487</u>	<u>\$ 206,311,871</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,996,483	\$ 13,141,985
Due to primary government	8,909,735	8,546,651
Compensated absences	1,389,015	1,071,525
Security deposits, including accrued interest	12,718,921	12,059,251
Total current liabilities	<u>29,014,154</u>	<u>34,819,412</u>
Noncurrent liabilities:		
Retirement contributions payable	3,481,452	3,485,866
Unearned local grants	1,631,705	2,723,994
Unearned fuel purchase obligation rebate	-	631,316
Unearned revenue	477,644	486,041
Obligations under estimated environmental remediation costs	9,941,234	9,941,234
Dividends payable	1,800,000	1,440,000
Total noncurrent liabilities	<u>17,332,035</u>	<u>18,708,451</u>
Total liabilities	<u>46,346,189</u>	<u>53,527,863</u>
Deferred inflows of resources:		
Rate stabilization (Public Law No. 16-7)	71,606	79,574
Total deferred inflows of resources	<u>71,606</u>	<u>79,574</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	118,665,292	121,962,483
Restricted	45,000,000	45,000,000
Unrestricted	<u>(2,925,600)</u>	<u>(14,258,049)</u>
Total net position	<u>160,739,692</u>	<u>152,704,434</u>
	<u>\$ 207,157,487</u>	<u>\$ 206,311,871</u>

See accompanying notes to financial statements.

COMMONWEALTH UTILITIES CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Power	\$ 29,225,612	\$ 23,170,199
Water	14,389,738	12,677,951
Sewer	4,744,216	3,214,875
Fuel adjustment charge	34,707,000	41,453,097
Amortization of fuel purchase obligation rebate	631,316	1,100,000
Other	870,780	727,230
	<u>84,568,662</u>	<u>82,343,352</u>
Bad debts	(2,503,110)	(6,539,633)
Net operating revenues	<u>82,065,552</u>	<u>75,803,719</u>
Operating expenses:		
Fuel, lube and taxes	37,875,495	44,703,784
General and administrative	19,372,870	36,254,757
Maintenance	11,731,862	44,372,747
Depreciation	10,213,930	8,978,206
Utility consumption	888,323	629,070
Supplies	666,214	1,041,730
Other	890,398	831,129
Total operating expenses	<u>81,639,092</u>	<u>136,811,423</u>
Operating income (loss)	<u>426,460</u>	<u>(61,007,704)</u>
Non-operating revenues (expenses):		
Federal grants	5,244,635	84,211,727
Interest income and late charges	952,488	4,235,914
Miscellaneous income	275,915	497,357
Contribution to OPA	(363,085)	(257,662)
Dividends	(900,000)	(900,000)
Total non-operating revenues (expenses), net	<u>5,209,953</u>	<u>87,787,336</u>
Income before capital contributions from primary government and special item	5,636,413	26,779,632
Capital contributions from primary government	2,398,845	959,655
Special item:		
Water well lease expense	-	(3,559,840)
Change in net position	8,035,258	24,179,447
Net position at beginning of year	<u>152,704,434</u>	<u>128,524,987</u>
Net position at end of year	<u>\$ 160,739,692</u>	<u>\$ 152,704,434</u>

See accompanying notes to financial statements.

COMMONWEALTH UTILITIES CORPORATION

Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from customers	\$ 82,454,638	\$ 94,863,358
Cash payments to suppliers for goods and services	(60,784,399)	(111,114,691)
Cash payments to employees for services	<u>(19,038,680)</u>	<u>(19,316,831)</u>
Net cash provided by (used for) operating activities	<u>2,631,559</u>	<u>(35,568,164)</u>
Cash flows from noncapital financing activities:		
Dividend payments	(540,000)	(900,000)
Federal grants received	<u>6,447,804</u>	<u>66,524,112</u>
Net cash provided by noncapital financing activities	<u>5,907,804</u>	<u>65,624,112</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(6,804,464)	(35,263,445)
Capital contributions received, net	<u>1,278,487</u>	<u>959,655</u>
Net cash used for capital and related financing activities	<u>(5,525,977)</u>	<u>(34,303,790)</u>
Net change in cash and cash equivalents	3,013,386	(4,247,842)
Cash and cash equivalents at beginning of year	<u>41,132,845</u>	<u>45,380,687</u>
Cash and cash equivalents at end of year	<u>\$ 44,146,231</u>	<u>\$ 41,132,845</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 426,460	\$ (61,007,704)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	10,213,930	8,978,206
Bad debt	2,503,110	6,539,633
Interest income and late charges	952,488	4,235,914
Miscellaneous income	275,915	497,357
Contribution to OPA	(363,085)	(257,662)
(Increase) decrease in assets:		
Accounts receivable - utility	274,861	7,840,165
Inventory	(473,202)	(11,896,458)
Notes receivable	(87,592)	39,149
Prepayments and other assets	1,677	(790,887)
Unbilled fuel cost recovery	(3,543,361)	1,766,778
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(7,145,502)	9,263,228
Compensated absences	317,490	18,856
Security deposits, including accrued interest	659,670	62,769
Unearned local grants	(1,092,289)	-
Unearned fuel purchase obligation rebate	(631,316)	(1,100,000)
Unearned revenue	(8,397)	(3,063)
Rate stabilization	(7,968)	(28,176)
Due to primary government	363,084	257,662
Retirement contributions payable	<u>(4,414)</u>	<u>16,069</u>
Net cash provided by (used for) operating activities	<u>\$ 2,631,559</u>	<u>\$ (35,568,164)</u>
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of utility plant:		
Noncash increase in due from grantor agencies	\$ 1,495,028	\$ 9,601,623
Noncash increase in land rights and utility plant	112,275	3,940,531
Noncash increase in federal grants	(1,579,234)	(9,899,163)
Noncash increase in capital contributions received	(28,069)	-
Noncash decrease in accounts receivable	<u>-</u>	<u>(3,642,991)</u>
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(1) Organization

The Commonwealth Utilities Corporation (CUC), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), was established as a public corporation by CNMI Public Law 4-47, as amended by Public Law 5-47, effective October 1, 1985 codified as Chapter 1 of Division 8 of Title 4 of the Commonwealth Code, and began operations on October 1, 1987. Chapter 1 of Division 8 of Title 4 of the Commonwealth Code was repealed and re-enacted by Section 10 of Public Law 16-17.

CUC was given responsibility for supervising the construction, maintenance, operations, and regulation of electric, water and sewage services, provided however, that whenever feasible, CUC shall contract with private businesses to assume its duties with respect to one or more of these divisions. CUC was also designated the responsibility to establish rates, meter, bill and collect fees in a fair and rational manner from all customers of utility services in order for CUC to become financially independent of appropriations by the CNMI Legislature. CUC is governed by a five-member Board of Directors, appointed for terms of four years by the Governor of the CNMI with the advice and consent of the Senate.

(2) Summary of Significant Accounting Policies

The accounting policies of CUC conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. CUC utilizes the flow of economic resources measurement focus. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

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

Budgets

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

Concentrations of Credit Risk

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

At September 30, 2020 and 2019, CUC has cash deposits in bank accounts that exceed federal depository insurance limits. CUC has not experienced any losses on such accounts.

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

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

Receivables

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

CUC allows customers to settle their outstanding utilities through issuance of promissory notes with terms ranging from six months to ten years at an interest rate of 12% per annum. As of September 30, 2020 and 2019, CUC recorded notes receivables of \$196,385 and \$108,793, respectively, net of allowance of \$27,512 and \$111,454, respectively.

Allowance for Doubtful Accounts

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

Due from Grantor Agencies

Grant disbursements over receipts are recognized as due from grantor agencies until funds are received in accordance with grant terms and conditions. As of September 30, 2020 and 2019, CUC recorded due from grantor agencies of \$7,067,556 and \$9,765,753, respectively.

Inventory Valuation

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

Allowance for inventory obsolescence is provided for inventory items, parts and supplies for equipment no longer in use based on quadrennial reviews. Allowance for inventory obsolescence was \$692,903 as of September 30, 2020 and 2019.

Prepayments and Other Assets

Payments made to vendors for services that will benefit future periods are recorded as prepayments. As of September 30, 2020 and 2019, CUC recorded prepayments of \$1,389,353 and \$1,400,484, respectively.

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Prepayments and Other Assets, Continued

Other assets consist of employee advances and other receivables stated at the amount of unpaid balances, net of allowance. CUC recorded employee and travel advances of \$14,794 and \$14,374 and other receivables of \$74,998 and \$65,963, net of allowance of \$721,447 as of September 30, 2020 and 2019, respectively.

Fuel Costs

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

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

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

Approved FAC rates for the years ended September 30, 2020 and 2019 are as follows:

<u>FAC Rates</u>	<u>2020</u>	<u>Effective Date</u>	<u>FAC Rates</u>	<u>2019</u>	<u>Effective Date</u>
\$0.16635		March 1, 2020	\$0.22317		October 1, 2018
\$0.11885		April 1, 2020	\$0.24131		November 1, 2018
\$0.08323		May 11, 2020	\$0.21246		December 1, 2018
\$0.11330		July 1, 2020	\$0.17624		January 1, 2019
\$0.12397		August 1, 2020	\$0.19213		March 1, 2019
			\$0.20087		April 1, 2019
			\$0.18803		July 1, 2019

The unbilled fuel cost recovery at September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
At beginning of year	\$ 3,798,291	\$ 5,565,069
Change in recovery of fuel costs	<u>3,543,361</u>	<u>(1,766,778)</u>
At end of year	\$ <u>7,341,652</u>	\$ <u>3,798,291</u>

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Utility Plant

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

CUC's current policy is to capitalize items in excess of \$5,000. The costs of acquisition and construction of equipment and facilities are recorded as construction-in-progress until such assets are completed and placed in service, at which time CUC commences recording depreciation expense. CUC capitalizes interest cost on borrowings incurred during the new construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the estimated useful lives of the assets. There was no capitalized interest for the years ended September 30, 2020 and 2019.

Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated vacation leave liability as of September 30, 2020 and 2019 amounted to \$1,389,015 and \$1,071,525, respectively.

Net Position

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

- Net investment in capital assets - Capital assets, net of accumulated depreciation and reduced by outstanding debt attributable to the acquisition, construction or improvements of those assets.
- Restricted:
 - Nonexpendable - Net position subject to externally imposed stipulations that CUC maintain them permanently. For the years ended September 30, 2020 and 2019, CUC's restricted nonexpendable net position pertains to the Commonwealth Development Authority's (CDA) preferred stock.
 - Expendable - Net position whose use by CUC is subject to externally imposed stipulations that can be fulfilled by actions of CUC pursuant to those stipulations or that expire by the passage of time. At September 30, 2020 and 2019, CUC does not have restricted expendable net position.

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Net Position, Continued

- Unrestricted - Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Retirement Plan

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

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

On March 11, 2013, Public Law 18-02 was enacted to amend Public Law 17-82 to clarify those provisions necessary to expedite the refunds and to prevent any further frustration of the process. Included in the public law is the amendment of Section 203(a) of Title 1, Division 8, Part 3, which states that the government obligation to withhold and remit the employee's portion to the employee's defined account shall continue with respect to employees who do not terminate membership in the DB Plan. All but seven active CUC employees voluntarily terminated membership in the DB Plan and CUC contributed \$147,221, \$257,067 and \$341,677 to the DB Plan during the years ended September 30, 2020, 2019 and 2018, respectively.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. CUC is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. CUC's recorded DC contributions for the years ended September 30, 2020, 2019 and 2018 was \$258,300, \$598,743 and \$386,706, respectively, equal to the required contributions for each year.

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Defined Contribution Plan (DC Plan), Continued

Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Operating and Non-Operating Revenues and Expenses

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

Nonoperating revenues and expenses result from investing and financing activities.

Revenue Recognition

Power, water and sewer 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 revenues at September 30, 2020 and 2019 included as receivables in the accompanying financial statements were \$2,600,755 and \$5,038,810, respectively.

Amortization of fuel purchase obligation rebate represents \$1,100,000 annual amortization of unearned fuel purchase obligation rebate from CUC's fuel supplier of \$6,600,000. As of September 30, 2020 and 2019, CUC recorded an unearned purchase obligation rebate of \$-0- and \$631,316, respectively.

Capital Contributions and Federal Grants

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

Unearned Revenues

Unearned revenues arise when cash is received prior to being earned and relates to grant monies, fuel purchase obligations rebate and credit vouchers of \$1,631,705, \$-0- and \$477,644, respectively, as of September 30, 2020 and \$2,723,994, \$631,316 and \$486,041, respectively, as of September 30, 2019, which refers to revenues of the subsequent year.

Deferred Outflows of Resources

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

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that is applicable to a future reporting period and therefore will not be recognized as an inflow of resources (revenue) until that future time. CUC recorded deferred inflows of resources from rate stabilization per Public Law No. 16-7 of \$71,606 and \$79,574 as of September 30, 2020 and 2019, respectively.

GASB Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* which revised and established new financial reporting requirements for most governments that provide their employees with pension benefits through plans that are administered through trusts. Management has determined that the CNMI is legally responsible for making contributions to NMISF as a non-employer entity and that net pension obligations are allocated in total to the CNMI. Management acknowledges the requirement to recognize revenue in an amount equal to the non-employer contributing entities' (CNMI) total proportionate share of the collective pension expense that is associated with CUC. CUC has not recorded related revenues and pension expense for the years ended September 30, 2020 and 2019 as amounts were not available.

New Accounting Standards

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statement No.'s 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, management has elected to postpone implementation of these statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 will be effective for fiscal year ending September 30, 2021.

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

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In March 2018, GASB issued Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 will be effective for fiscal year ending September 30, 2021.

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

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

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

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

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

Estimates

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

(3) Cash and Cash Equivalents

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

As of September 30, 2020 and 2019, total unrestricted cash and cash equivalents were \$32,015,077 and \$29,056,244, respectively, and the corresponding bank balances were \$33,080,727 and \$29,130,830, respectively. Of the bank balance amounts, \$32,903,653 and \$28,846,711, respectively, are maintained in financial institutions subject to FDIC insurance and \$177,074 and \$284,119, respectively, represents amounts maintained in a non-FDIC insured bank as of September 30, 2020 and 2019. CNMI law does not require component unit funds to be collateralized and thus CUC's funds, in excess of FDIC insurance, are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents of \$12,131,154 and \$12,076,601 at September 30, 2020 and 2019, respectively, pertain to customer deposits.

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(4) Accounts Receivable - Utility

Accounts receivable - utility as of September 30, 2020 and 2019 summarized by location and customer classification are as follows:

	<u>2020</u>	<u>2019</u>
By location:		
Saipan:		
Commercial	\$ 7,091,341	\$ 9,195,036
Residential	10,572,981	10,999,057
Government	<u>26,305,285</u>	<u>31,064,278</u>
	<u>43,969,607</u>	<u>51,258,371</u>
Tinian:		
Commercial	1,776,257	1,775,748
Residential	254,239	274,225
Government	<u>1,383,334</u>	<u>1,380,674</u>
	<u>3,413,830</u>	<u>3,430,647</u>
Rota:		
Commercial	156,139	175,215
Residential	251,229	251,005
Government	<u>1,888,261</u>	<u>2,072,190</u>
	<u>2,295,629</u>	<u>2,498,410</u>
Total billed	49,679,066	57,187,428
Unbilled	<u>2,600,755</u>	<u>5,038,810</u>
Grand total	\$ <u>52,279,821</u>	\$ <u>62,226,238</u>
By customer classification:		
Billed:		
Commercial	\$ 9,023,737	\$ 11,145,999
Residential	11,078,449	11,524,287
Government	29,576,880	34,517,142
Unbilled	<u>2,600,755</u>	<u>5,038,810</u>
	52,279,821	62,226,238
Less allowance for uncollectible accounts	<u>(46,883,873)</u>	<u>(56,555,429)</u>
	\$ <u>5,395,948</u>	\$ <u>5,670,809</u>

Changes in allowance for uncollectible accounts for the years ended September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Total allowance, beginning of year	\$ 56,555,429	\$ 50,015,796
Provision for uncollectible accounts	2,503,110	6,539,633
Accounts written-off	<u>(12,174,666)</u>	<u>-</u>
Total allowance, end of year	\$ <u>46,883,873</u>	\$ <u>56,555,429</u>

Concentrations of credit risk result from receivables from significant customers and receivables from related parties which represent 3% and 59%, respectively, as of September 30, 2020 and 2% and 60%, respectively, as of September 30, 2019 of total receivables. Management assesses the risk of loss and provides an allowance for doubtful accounts to compensate for known credit risk.

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(5) Inventory

Inventory balances as of September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Fuel and lubes	\$ 2,563,059	\$ 1,510,156
Materials and supplies	<u>20,995,122</u>	<u>21,574,823</u>
	23,558,181	23,084,979
Allowance for obsolescence	<u>(692,903)</u>	<u>(692,903)</u>
Inventory, net	\$ <u><u>22,865,278</u></u>	\$ <u><u>22,392,076</u></u>

(6) Capital Contributions and Federal Grants

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. CUC recorded direct federal awards and sub-recipient of federal grants of \$5,128,422 and \$116,213 for the year ended September 30, 2020, respectively, and \$3,447,333 and \$80,764,394 for the year ended September 30, 2019, respectively.

(7) Capital Assets

A summary of the changes in capital assets for the years ended September 30, 2020 and 2019 is as follows:

	<u>Estimated Useful Lives</u>	<u>Balance October 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Adjustments/ Transfers</u>	<u>Balance September 30, 2020</u>
Assets not being depreciated:						
Construction in progress		\$ 2,504,567	\$ 6,299,524	\$ -	\$ (1,781,660)	\$ 7,022,431
Total capital assets not being depreciated		<u>2,504,567</u>	<u>6,299,524</u>	<u>-</u>	<u>(1,781,660)</u>	<u>7,022,431</u>
Capital assets being depreciated:						
Utility plant in service:						
Electric plant	25 years	181,517,533	163,475	-	-	181,681,008
Water plant	25 years	84,781,469	959,775	(37,800)	-	85,703,444
Sewer plant	25 years	54,595,878	1,254,274	(15,000)	-	55,835,152
Administrative equipment	3 - 5 years	<u>4,384,553</u>	<u>23,328</u>	<u>-</u>	<u>(1,977)</u>	<u>4,405,904</u>
		325,279,433	2,400,852	(52,800)	(1,977)	327,625,508
Less accumulated depreciation and amortization		<u>(205,821,517)</u>	<u>(10,215,573)</u>	<u>52,800</u>	<u>1,643</u>	<u>(215,982,647)</u>
Total capital assets being depreciated		<u>119,457,916</u>	<u>(7,814,721)</u>	<u>-</u>	<u>(334)</u>	<u>111,642,861</u>
Total capital assets, net		\$ <u><u>121,962,483</u></u>	\$ <u><u>(1,515,197)</u></u>	\$ <u><u>-</u></u>	\$ <u><u>(1,781,994)</u></u>	\$ <u><u>118,665,292</u></u>

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(7) Capital Assets, Continued

	Estimated Useful Lives	Balance October 1, 2018	Additions	Disposals	Adjustments/ Transfers	Balance September 30, 2019
Assets not being depreciated:						
Construction in progress		\$ 10,951,651	\$ 1,723,346	\$ (2,618,080)	\$ (7,552,350)	\$ 2,504,567
Total capital assets not being depreciated		<u>10,951,651</u>	<u>1,723,346</u>	<u>(2,618,080)</u>	<u>(7,552,350)</u>	<u>2,504,567</u>
Capital assets being depreciated:						
Utility plant in service:						
Electric plant	25 years	154,009,053	32,269,636	(4,974,887)	213,731	181,517,533
Water plant	25 years	79,258,533	3,742,034	(300,969)	2,081,871	84,781,469
Sewer plant	25 years	54,114,298	942,515	(153,181)	(307,754)	54,595,878
Administrative equipment	3 - 5 years	<u>3,964,155</u>	<u>590,107</u>	<u>-</u>	<u>(169,709)</u>	<u>4,384,553</u>
		291,346,039	37,544,292	(5,429,037)	1,818,139	325,279,433
Less accumulated depreciation and amortization		<u>(203,600,238)</u>	<u>(4,004,193)</u>	<u>-</u>	<u>1,782,914</u>	<u>(205,821,517)</u>
Total capital assets being depreciated		<u>87,745,801</u>	<u>33,540,099</u>	<u>(5,429,037)</u>	<u>3,601,053</u>	<u>119,457,916</u>
Total capital assets, net		\$ <u>98,697,452</u>	\$ <u>35,263,445</u>	\$ <u>(8,047,117)</u>	\$ <u>(3,951,297)</u>	\$ <u>121,962,483</u>

Included in utility plant in service adjustments/transfers for fiscal years ended September 30, 2020 and 2019 are completed projects transferred from construction work-in-progress to utility plant in service of \$1,781,660 and \$6,781,017, respectively.

CUC entered into several construction contracts during fiscal years 2020 and 2019 for improvements, rehabilitation and replacement of facilities, and other capital projects. As of September 30, 2020 and 2019, CUC had outstanding construction contracts totaling \$10,621,574 and \$3,294,464, respectively, that will be financed from operating funds and federal awards.

(8) Security Deposits

Pursuant to 4 CMC § 8143, as amended by Public Law 16-17, CUC shall collect one-month security deposit per residential customer account. Such deposits shall be placed in an interest-bearing trust fund and shall not be used for any other purpose. A summary of security deposits including accrued interest as of September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Electric	\$ 11,193,846	\$ 10,644,358
Water	666,386	603,830
Sewer	<u>261,160</u>	<u>226,414</u>
Total security deposits	12,121,392	11,474,602
Accrued interest on security deposits	<u>597,529</u>	<u>584,649</u>
Security deposits, including interest	\$ <u>12,718,921</u>	\$ <u>12,059,251</u>

Excess of security deposits over restricted cash and cash equivalents for customer deposits as of September 30, 2020 of \$587,767 was deposited in an interest-bearing fund in the subsequent period.

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(9) Related Party Transactions

Public Law 9-68, enacted on October 19, 1995, requires government agencies to pay the CNMI Treasurer an amount not less than the greater of 1% of its total operations budget from sources other than legislative appropriations or pursuant to any other formula, which the CNMI Office of the Public Auditor (OPA) and the agency may agree, to fund the OPA.

At September 30, 2020 and 2019, CUC recognized outstanding payables to the CNMI Government of \$8,909,735 and \$8,546,651, respectively. CUC owes the CNMI government OPA fees of approximately \$16.6 million and \$15.3 million as of September 30, 2020 and 2019, respectively, 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, 2020 and 2019. Due to uncertainties, CUC elected to record additional liabilities after the settlement agreement is finalized.

On September 26, 2011, the Appropriations and Budget Authority Act of 2012 (Public Law 17-55) was signed into law. Section 601 of Public Law 17-55 authorizes the CNMI Secretary of Finance to deduct the 1% due to the OPA from CUC from the monthly utility costs of the government. No application of payments was made as of September 30, 2020 and 2019.

In fiscal year 2018, a settlement was reached on CUC's outstanding balance on employer contributions owed to NMISF. Under the agreement, CUC agreed to a payment total of \$3,469,797 to be paid in \$50,000 monthly installments on the first of each month until the balance is paid in full. As of September 30, 2020 and 2019, CUC recorded retirement contributions payable of \$3,481,452 and \$3,485,866, respectively. No payment has been made as of September 30, 2020 as CUC and NMISF have yet to execute a settlement agreement.

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

(10) Preferred Stock Issued to CDA

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

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

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(10) Preferred Stock Issued to CDA, Continued

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

On May 7, 2009 the MOA was signed by officials of CUC and CDA. The MOA was subsequently approved by CPUC.

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

On August 17, 2016, CUC entered into an agreement with CDA for the total amount of unpaid dividend payments owed to CDA and agreed to a dividend of \$4,320,000 for the year ended September 30, 2016. The agreement states that CUC will make quarterly dividend payments of \$270,000 beginning October 1, 2016, as required by the preferred stock agreement, which represents the full amount of the quarterly dividend due. Dividends payable as of September 30, 2020 and 2019 amounted to \$1,800,000 and \$1,440,000, respectively.

(11) Risk Management

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 does not maintain insurance coverage for a significant amount of fixed assets. In the event of a catastrophe, CUC may be self-insured to a material extent.

(12) Commitments and Contingencies

Commitments

Capital Commitments

At September 30, 2020, CUC had commitments of \$10.6 million for construction, purchases of inventory, and acquisition of property and equipment, all of which are expected to be incurred in 2021.

Fuel Purchase Contract

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

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(12) Commitments and Contingencies, Continued

Commitments, Continued

Operating Lease

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 June 2018 and expiring in June 2020 with an option to extend for two years, renewable annually. On June 11, 2020 and April 07, 2021, the agreement was renewed to extend contract expiration date to June 14, 2022. The annual lease payment is \$136,344 for the first two years and \$117,024 for the additional years.

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 \$16,900.

Future lease payments are as follows:

Year ending September 30,

2021	\$ 300,529
2022	<u>95,287</u>
	\$ <u>395,816</u>

Power Purchase Contract

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

Omnibus Agreement

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

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.

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(12) Commitments and Contingencies, Continued

Contingencies, Continued

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.

Litigation and Potential Claims

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

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

Stipulated Orders

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

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

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

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

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

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

Notes to Financial Statements
September 30, 2020 and 2019

(12) Commitments and Contingencies, Continued

Contingencies, Continued

Cumulative Questioned Costs

CUC participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$490,364 have been set forth in CUC's Single Audit Report for the year ended September 30, 2020 and is comprised of questioned costs of \$157,647 for fiscal year 2020 and \$332,717 for fiscal year 2019. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

(13) Obligations Under Estimated Environmental Remediation Costs

CUC is involved in environmental remediation and ongoing compliance as discussed in note 12.

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 (USCG) 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 as of September 30, 2020.

On October 27, 2011, EPA contacted CUC regarding release or threatened release of hazardous substance connected with the Rota Power Plant located in Songsong Village, Rota (the Site). As a current owner and operator of the Rota Power Plant, EPA believes that CUC may be liable pursuant to Section 107(a) of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), as amended, 42 U.S.C. 9607(a), for response costs incurred to address environmental contamination at the Site. By letter dated November 3, 2011, CUC indicated that it lacked the financial ability to perform an immediate cleanup of hazardous substances and requested EPA's assistance in performing such a cleanup. EPA has incurred at least \$2,131,697 in costs related to the Site as of January 31, 2016. The financial statements include an accrual for these response costs. These assessments are still outstanding as of September 30, 2020.

In fiscal year 2020, CUC and USCG agreed to enter in a settlement agreement pursuant to Section 1015 of the Oil Pollution Act of 1990. CUC agreed to pay USCG the principal sum of \$1,185,000 in forty-eight monthly installment of \$24,688 at 3% annual interest.

A settlement agreement was also entered between CUC and the U.S. EPA pursuant to CERCLA section 122(h)(1) for recovery of past response costs of \$135,000.

The settlement agreements have not yet been signed and adopted. CUC elected to adjust the obligations under environmental remediation costs to the total settlement amount of \$1.5 million upon formalization of the agreement.

COMMONWEALTH UTILITIES CORPORATION

Notes to Financial Statements
September 30, 2020 and 2019

(14) Economic Dependency

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

(15) COVID-19 Pandemic

Economic uncertainties have arisen as a result of the COVID-19 coronavirus pandemic. The CNMI government temporarily suspended commercial air travel to the Commonwealth effective April 06, 2020 to prevent the spread of the COVID-19. Although this suspension is temporary, there is considerable uncertainty on its duration, which has negatively impacted business in the CNMI and resulted in permanent closure of some businesses and employee furloughs both in private and public sectors. CUC expects this matter to negatively impact its future financial results; however, the related financial impact cannot be reasonably estimated at this time.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Revenues, Expenses and Changes in Net Position on a Divisional Basis
Year Ended September 30, 2020

	Power	Water	Sewer	Administrative and General	Elimination	Total
Operating revenues:						
Government	\$ 5,256,828	\$ 5,587,817	\$ 2,628,322	\$ -	\$ (948,602)	\$ 12,524,365
Commercial	16,250,528	2,738,827	1,394,010	-	-	20,383,365
Residential	8,666,858	6,063,094	721,884	-	-	15,451,836
Subtotal	30,174,214	14,389,738	4,744,216	-	(948,602)	48,359,566
Fuel adjustment charge	37,875,496	-	-	-	(3,168,496)	34,707,000
Amortization of fuel purchase obligation rebate	631,316	-	-	-	-	631,316
Other	674,238	123,356	73,186	-	-	870,780
	69,355,264	14,513,094	4,817,402	-	(4,117,098)	84,568,662
Bad debts	(542,846)	(1,128,295)	(831,969)	-	-	(2,503,110)
Net operating revenues	68,812,418	13,384,799	3,985,433	-	(4,117,098)	82,065,552
Operating expenses:						
Fuel, lube and taxes	37,875,495	-	-	-	-	37,875,495
General and administrative	8,202,688	974,315	167,615	10,028,252	-	19,372,870
Maintenance	10,235,246	1,143,366	216,386	136,864	-	11,731,862
Depreciation	5,488,486	2,264,966	2,163,514	296,964	-	10,213,930
Utility consumption	708,440	3,363,300	674,682	258,999	(4,117,098)	888,323
Supplies	256,678	179,745	49,183	180,608	-	666,214
Other	-	-	-	890,398	-	890,398
Total operating expenses	62,767,033	7,925,692	3,271,380	11,792,085	(4,117,098)	81,639,092
Operating income (loss) before allocation of common costs	6,045,385	5,459,107	714,053	(11,792,085)	-	426,460
Allocation of common costs	(9,296,138)	(1,923,276)	(572,671)	11,792,085	-	-
Operating (loss) income	(3,250,753)	3,535,831	141,382	-	-	426,460
Non-operating revenues (expenses):						
Federal grants	1,580,100	3,223,832	440,703	-	-	5,244,635
Interest income and late charges	1,504,641	(77,683)	(474,470)	-	-	952,488
Miscellaneous income	175,297	48,838	51,780	-	-	275,915
Contribution to OPA	(231,845)	(87,637)	(43,603)	-	-	(363,085)
Dividends	(900,000)	-	-	-	-	(900,000)
Total non-operating revenues (expenses), net	2,128,193	3,107,350	(25,590)	-	-	5,209,953
(Loss) income before capital contributions from primary government	(1,122,560)	6,643,181	115,792	-	-	5,636,413
Capital contributions from primary government	2,398,845	-	-	-	-	2,398,845
Change in net position	\$ 1,276,285	\$ 6,643,181	\$ 115,792	\$ -	\$ -	\$ 8,035,258

See Accompanying Independent Auditors' Report.