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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2012

Deloitte.

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INDEPENDENT AUDITORS' REPORT

Ms. Esther L. Muna
Chief Executive Officer
Commonwealth Healthcare Corporation:

We were engaged to audit the accompanying statement of net assets of the Commonwealth Healthcare Corporation (CHCC), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), as of September 30, 2012, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of CHCC's management.

CHCC has not recorded capital assets, accumulated depreciation and depreciation expense as of and for the year ended September 30, 2012.

We were unable to determine the propriety of receivables, inventories, liabilities and related revenues and expenses as of and for the year ended September 30, 2012 as CHCC could not substantiate general ledger balances due to inadequacies in accounting records.

Because of the significance of the matters discussed in the second and third paragraphs above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014, on our consideration of CHCC'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our engagement to audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 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. The supplementary information is the reponsibility of CHCC's management. 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.

Deloitte & Touche LLC

December 4, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2012

INTRODUCTION

On January 15, 2009, Governor Benigno R. Fitial signed House Bill 16-9, HS1, SD2 as Public Law 16-51. The purpose of Public Law 16-51 is to establish a public corporation for healthcare and related public health services known as the "Commonwealth Healthcare Corporation."

On October 24, 2011, more than two (2) years and ten (10) months later, the Commonwealth Healthcare Corporation was formally established with the appointment of a Board of Trustees and a Chief Executive Officer.

The main objective is to establish a public corporation to provide better healthcare services. The primary reason is that a public corporation provides more flexibility to manage the delivery of healthcare services and is less constrained by government processes which may impede the efficiency and/or effectiveness of the organization. The government retains control and oversight of the public corporation through legislative processes and oversight; however, the corporation operates independently to serve public purposes as articulated in the enabling legislation.

The following Management's Discussion & Analysis (MD&A) of the Commonwealth Healthcare Corporation (CHCC) activities and financial performance will serve as an introduction and overview of the audited financial statements of CHCC for fiscal year 2012. The information contained in the MD&A has been prepared by management and should be considered in conjunction with the financial statement and notes which follows this section.

OVERVIEW OF THE FINANCIAL STATEMENT AND FINANCIAL ANALYSIS

FINANCIAL HIGHLIGHTS

- Pursuant to Public Law 17-55, Section 710, CHCC's budgeted seed fund for fiscal year 2012 is $5,000,000. The net appropriation received was $4,723,468.
- CHCC has no recorded accumulated capital assets and has total assets of $16,639,817 deriving from cash, receivables and inventories.
- CHCC's total liabilities as of fiscal year 2012 are $16,441,082.
- CHCC's operating revenues and expenses amounted to $29,651,097 and $34,075,575, respectively, with an operating loss of $4,424,478 for fiscal year 2012.

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A summary of the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets is presented below:

Summarized Statement of Net Assets:

Assets	
Current assets	$ 16,639,817
Total assets	$ 16,639,817
Liabilities and Net Assets	
Liabilities:	
Current liabilities	$ 16,441,082
Total liabilities	16,441,082
Net assets:	
Unrestricted	198,735
Total net assets	198,735
Total liabilities and net assets	$ 16,639,817

Summarized Statement of Revenues, Expenses, and Changes in Net Assets:

Operating revenues	$ 29,651,097
Operating expenses	34,075,575
Operating loss	(4,424,478)
Nonoperating revenues (expenses), net	4,623,213
Net assets at end of year	$ 198,735

CHCC'S ANALYSIS & FINANCIAL CONDITION

At the end of the fiscal year, CHCC has total assets of $16,639,817 from its cash, general receivables, net of allowances and doubtful accounts, and inventories of medical and pharmaceutical supplies. CCHC has no recorded capital assets.

Current liabilities arise from obligations to CHCC's suppliers/vendors for operations, retirement contributions and taxes.

Notes payable arise from the Marianas Public Land Trust (MPLT) lines of credit of $3,000,000 and $328,655 for the Electronic Health Record (EHR) Program. See note 3 to the financial statements for more detailed information on the CHCC's notes payable to a related party.

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Three major challenges in the first year of operations were:

- Finances;
- Planning and or development of a Strategic Plan; and
- Management's inexperience in dealing with the magnitude of financial shortfalls and problems resulting from a lack of planning.

The lack of transition planning coupled with financial difficulties of the CNMI Government created a challenge for CHCC. There were no articles of incorporation or by-laws for the operation of the Board, no application for the designation of CHCC as a provider of healthcare services for Medicare and Medicaid, no financial assessments or plans, no statement of beginning balances for cash, payables and receivables, no financial accounting system, no procurement regulation and personnel policy and no standard operating procedure in the Clinical and Administrative areas.

CHALLENGES & ACCOMPLISHMENTS

Despite the monumental financial challenges and the lack of planning for CHCC upon its inception, there are also a number of accomplishments that were achieved:

a. CHCC was able to survive the first year despite very limited funding. CHCC was aided in this effort by the Governor, Lt. Governor, MPLT, the CNMI Legislature and efforts of the CHCC Team.

   It was during the period of fiscal year 2012 that we encountered payless paydays which resulted in an investigation from the U.S. Labor Wage and Hour Division. As a result of the investigation, CHCC paid back wages.

b. Infusion of Medicaid funds and the use of Certified Public Expenditures (CPE) came into effect toward the last month of fiscal year 2012.

c. Formulation of a Revenue Cycle Management (RCM) Team - Billings and Collections. CHCC hired additional staff for the RCM Team. This Team has become increasingly productive and revenues are increasing.

d. Enrollment of eligible Medicare patients into the Part B Medical Insurance Program. The Medicare Part B Program covers services such as doctor visits, supplies (e.g. wheelchairs and walkers) and hemodialysis which are medically necessary to treat a disease or condition.

e. Updates of the Charge Master for Healthcare Services took effect on August 23, 2012.

f. Healthcare Quality and the CSM 2012 Immediate Jeopardy (IJ) Citations from the Center for Medicare and Medicaid (CMS).

g. CHCC successfully applied for a line of credit from MPLT to aide its operational activities and for the implementation of the EHR Program in conjunction with the Health Information Exchange (HIE) Program through a grant award under the American Recovery and Reinvestment Act.

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h. As a result of participation in the EHR Program, CHCC will eventually realize a return on investment (ROI) by acquiring incentives for a four-year period beginning January 2013.

ECONOMIC OUTLOOK

The transition of the healthcare operations from a government agency to a public corporation is always challenging and the first year of operations of CHCC was difficult. The absence of seed capital, lack of planning, and the inexperience of the management team in dealing with the magnitude of financial and planning problems can only be fully appreciated in hindsight since so much of the time the management team struggled on a daily basis with finding funds to pay for personnel, vendors and medical supplies.

Today, CHCC is better positioned to address the many continuing challenges in the upcoming year. At the same time, important financial challenges remain which must be addressed. CHCC believes it has made significant progress and with the continued and strengthened partnership with local and federal partners, CHCC is confident that healthcare system improvements will be achieved.

CONTACTING CHCC'S FINANCIAL MANAGEMENT

This report is designed to provide our citizens, taxpayers, patients and stakeholders a general overview of CHCC's finances and demonstrate its stewardship and accountability with public funds that it collects and its proper usage. If you have any questions about this report or need additional information, please contact CHCC's Chief Executive Officer at 234-8950 or the Interim Chief Financial Officer at 236-8765, Monday through Friday, 8:00 am to 5:00 pm, except on recognized CNMI Government holidays.

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COMMONWEALTH HEALTHCARE CORPORATION

Statement of Net Assets
September 30, 2012

ASSETS

Current assets:	
Cash	$ 6,975,200
Receivables:	
Third party insurers	73,696,467
Medicaid	76,057,990
Patient	56,457,797
Medicare	6,198,635
Other	498
	212,411,387
Less allowance for doubtful accounts	(203,107,022)
Total receivables, net	9,304,365
Inventories	360,252
	$ 16,639,817

LIABILITIES AND NET ASSETS

Current liabilities:	
Notes payable to a related party	$ 3,328,655
Accounts payable	2,082,466
Due to CNMI	385,331
Due to related parties	7,212,009
Accrued payroll	1,123,996
Accrued taxes and other expenses	2,308,625
Total liabilities	16,441,082
Commitments and contingency	
Net assets:	
Unrestricted	198,735
Total net assets	198,735
	$ 16,639,817

See accompanying notes to financial statements.

COMMONWEALTH HEALTHCARE CORPORATION

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2012

Operating revenues:	
Hospital services	$ 28,250,264
Other revenue	1,382,833
Contributions	18,000
Total operating revenues	29,651,097
Operating expenses:	
Wages and salaries	15,869,511
Employee benefits	5,456,071
Utilities	4,959,282
Supplies	4,057,107
Professional services	854,925
Cleaning services	552,837
Repair and maintenance	360,675
Recruitment/repatriation	309,829
Communications	283,176
Fuel and lubricants	244,475
Travel	121,062
Food items	118,943
Furniture and fixtures	79,789
Printing and photocopying	60,908
Freight and handling	47,670
Licenses and fees	37,371
Machinery and equipment	26,890
Building improvements	7,400
Rentals	4,800
Office equipment	1,828
Miscellaneous	621,026
Total operating expenses	34,075,575
Operating loss	(4,424,478)
Nonoperating income (expense):	
Interest expense	(100,255)
CNMI appropriation	4,723,468
Total nonoperating income (expense), net	4,623,213
Change in net assets	198,735
Net assets at beginning of year	-
Net assets at end of year	$ 198,735

See accompanying notes to financial statements.

COMMONWEALTH HEALTHCARE CORPORATION

Statement of Cash Flows
Year Ended September 30, 2012

Cash flows from operating activities:	
Cash received from customers	$ 20,346,732
Cash payments to suppliers for goods and services	(1,761,607)
Cash payments to employees for services	(19,561,793)
Net cash used for operating activities	(976,668)
Cash flows from financing activities:	
Cash received from the CNMI	4,723,468
Proceeds from notes payable	3,328,655
Interest paid on notes payable	(100,255)
Net cash provided by financing activities	7,951,868
Net increase in cash	6,975,200
Cash at beginning of year	-
Cash at end of year	$ 6,975,200
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (4,424,478)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Increase in assets:	
Accounts receivable	(9,304,365)
Inventories	(360,252)
Increase in liabilities:	
Accounts payable	2,082,466
Due to CNMI	385,331
Due to related parties	7,212,009
Accrued payroll	1,123,996
Accrued taxes and other expenses	2,308,625
Net cash used for operating activities	$ (976,668)

See accompanying notes to financial statements.

(1) Organization and Purpose

The Commonwealth Healthcare Corporation (CHCC) is responsible for providing healthcare services in the Commonwealth of the Northern Mariana Islands (CNMI), and was created through CNMI Public Law 16-51. CHCC is governed by a Chief Executive Officer (CEO) who governs the operations of CHCC in a manner that furthers its purposes. A seven-member Board of Trustees, three of which are ex officio voting members consisting of the CEO, the Director of Medical Affairs and a U.S. citizen selected from CHCC's non-physician healthcare professionals and the remaining four appointed by the Governor with the advice and consent of the Senate, acts in an advisory role to the CEO.

(2) Summary of Significant Accounting Policies

The accounting policies of CHCC conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. CHCC has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

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 on the statement of net assets. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net assets. 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 Public Law 3-68, the Planning and Budgeting Act of 1983, CHCC submits an annual budget to the CNMI Office of the Governor.

Concentrations of Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, CHCC'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 or held by the pledging financial institution but not in the depositor-government's name.

(2) Summary of Significant Accounting Policies, Continued

Taxes

Per Public Law 16-51, Section 2811, CHCC is exempt from the Northern Marianas Territorial Income Tax. Therefore, no provision has been made for gross receipts or income taxes in the accompanying financial statements.

Cash and Cash Equivalents

For purposes of the statements of net assets and cash flows, CHCC considers all cash held in demand accounts to be cash. At September 30, 2012, total cash was $6,975,200 and the corresponding bank balance was $1,401,569, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance as of September 30, 2012. Bank deposits in the amount of $250,000 were FDIC insured as of September 30, 2012. CNMI law does not require component unit funds to be collateralized and thus CHCC's funds, in excess of FDIC insurance, are uncollateralized. Accordingly, the deposits are exposed to custodial credit risk.

Patient Accounts Receivable

Accounts receivable for services provided to patients covered under the Medicare and Medicaid programs, privately sponsored managed care programs for which payment is made based on terms defined under formal contracts, and other payors (including self-pay) are recorded at their estimated realizable values based on CHCC's standard fees. A provision for uncollectible accounts is based on management's evaluation of the collectability of current accounts and historical trends. Finance charges or interest is not accrued for past due accounts. Uncollectible accounts are written-off against the provision for the specific program.

Management believes there are no significant credit risks associated with receivables from government programs. Receivables from managed care programs and others are from various payors who are subject to differing economic conditions. They do not represent any concentrated credit risk to CHCC. Management continually monitors and adjusts the estimated allowances for contractual adjustments and uncollectible accounts.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated at an amount that management believes 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 an allowance for doubtful accounts charged to bad debts expense. Bad debts are written-off against the allowance based on the specific identification method. CHCC did not record bad debts during the year ended September 30, 2012.

Inventories

Inventories are stated at the lower of cost or market using the first-in/first-out (FIFO) method.

(2) Summary of Significant Accounting Policies, Continued

Capital Assets

In accordance with CNMI Public Law 16-51, CHCC and the CNMI are preparing a legal transfer document transferring all real properties owned by the CNMI Department of Public Health, and all other real and personal property used exclusively for the functions and duties assumed by CHCC, to CHCC. Given the incomplete status of this transfer document CHCC management has expensed all capital asset additions, which is not in accordance with accounting principles generally accepted in the United States of America. Upon finalization of the transfer agreement CHCC will record transferred capital assets and restate its financial statements for capital asset additions for the year ended September 30, 2012.

Retirement Plan

CHCC contributes to the Northern Mariana Islands Retirement Fund's (the Fund) defined benefit plan (DB Plan), a cost-sharing, multiple-employer plan (the Plan) established and administered by the Fund, and a defined contribution plan (DC Plan).

The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. CHCC has complied with GASB Statement No. 45 by recording OPEB expense based on the statutorial determined contribution rate of the Fund. It is the understanding of the management of CHCC that the statutorial determined contribution rate of the Fund incorporates both the pension liability and OPEB liability. GASB Statement No. 45 also requires detailed disclosure of information related to the OPEB plan and CHCC management was unable to obtain this information from the Fund financial report. CHCC management is unable to obtain the required disclosures and is of the opinion that such information must be obtained from the Fund. It is the position of the management of CHCC that the Fund is solely responsible for disclosure of OPEB information.

Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund (NMIRF) Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2 and 16-36.

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan (DB Plan), Continued

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarial contribution rate for the fiscal year ended September 30, 2012 has yet to be determined. The actuarially determined contribution rate for the fiscal year ended September 30, 2010 is 72.7215% of covered payroll based on an actuarial valuation as of October 1, 2010 issued in October 2012. The established statutory rate at September 30, 2012 is 60.8686% of covered payroll. CHCC's recorded DB contributions to the Fund for the year ended September 30, 2012 was $3,070,449.

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.

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. CHCC is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. CHCC's recorded DC contributions for the year ended September 30, 2012 was $288,349.

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.

(2) Summary of Significant Accounting Policies, Continued

Net Assets

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, has required CHCC to establish net asset categories as follows:

- Invested in capital assets: capital assets, net of accumulated depreciation. CHCC has not recorded net assets invested in capital assets at September 30, 2012.

- Restricted: net assets subject to externally imposed stipulations that can be fulfilled by actions pursuant to those stipulations or that expire by the passage of time. CHCC does not have restricted net assets at September 30, 2012.

- Unrestricted: net assets that are not subject to externally imposed stipulations.

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, 2012 could not be provided.

Operating and Non-Operating Revenue and Expenses

CHCC considers revenues and costs that are directly related to patient and other healthcare operations and exchange transactions to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as non-operating. Revenues are recorded net of contractual adjustments; however, CHCC management has not tracked the amount of contractual adjustments for purposes of disclosure.

New Accounting Standards

During the year ended September 30, 2012, CHCC implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CHCC.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus,* which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CHCC.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CHCC.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of CHCC.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of CHCC.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of CHCC.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of CHCC.

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) Notes Payable to a Related Party

Note payable to the Marianas Public Land Trust (MPLT), bearing interest at 7% per annum, due over a one-year term, beginning on March 12, 2012. The note is collateralized by future distributable income in fiscal year 2014 and CHCC's real properties for CHCC's operational and bridge capital pursuant to CNMI Public Law No. 17-76. The note was paid in full on March 12, 2013.	$ 3,000,000
Note payable to MPLT, bearing interest at 7% per annum, due over eighteen months, beginning on September 30, 2012. The note is collateralized by future distributable income in fiscal year 2014 and CHCC's real properties for CHCC's Health Information Technology/Electronic Health Records Project pursuant to CNMI Public Law No. 17-76. The note was paid in full on April 19, 2013.	328,655
	$ 3,328,655

(4) Risk Management

CNMI Public Law 16-51 established CHCC as a public corporation with certain limitations on liability provided by the CNMI Government Liability Act (GLA) and immunity from seizure of its property to pay judgment debts. CHCC employees are covered by CNMI Public Law 15-22, which amended the GLA, which provides that employees who have been personally sued for actions taken within the scope of their employment may have the government substituted as the defendant and the employee dismissed from the suit. CHCC is "self-insured" meaning it has no insurance coverage. When a malpractice action is filed naming an individual health care provider who works for the government as a defendant, Public Law 15-22 requires that the health care provider be dismissed from the lawsuit, and the government substituted as the defendant, upon certification by the CNMI Attorney General that the provider was acting within the scope of his or her employment at the time of the alleged negligence. Public Law 15-22 operates to substitute the CNMI government, not CHCC, as the defendant in place of the individual CHCC employee. Public Law 16-51 is clear that CHCC is a CNMI government corporation covered by the immunities reserved to the government under the GLA. The GLA provides that judgments against CNMI public corporations are treated as judgments against the CNMI for the purpose of enforcement and payment. A judgment against CHCC may only be paid upon a specific appropriation by the CNMI Legislature for that purpose. Absent an appropriation by the legislature, CHCC is prohibited from paying a judgment rendered against it.

CHCC will report all of its risk management activities, if and when such occurs. Claims expenditures and liabilities will be reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Losses, if reported, would include an estimate of claims that have been incurred but not reported. No losses as a result of these risks have occurred or have been reported within the last year.

(5) Related Party Transactions

At September 30, 2012, the amount due to the Commonwealth Utilities Corporation (CUC) for power, water and sewer charges amounted to $4,517,438.

At September 30, 2012, CHCC recorded amounts due to the Northern Mariana Islands Retirement Fund of $2,694,571 related to CHCC's contribution to the DB Plan.

(6) Commitments

CHCC leases a portion of its office space, located on the second floor of the Commonwealth Health Center. The lease agreement provides for an annual rental of $79,500 during the term of the lease and expires in November 2016. Total lease income for the year ended September 30, 2012 amounted to $74,152. Minimum future lease income is as follows:

(6) Commitments, Continued

Year ending September 30,	Minimum Lease Income Due
2013	$ 79,500
2014	79,500
2015	79,500
2016	79,500
2017	9,938
	$ 327,938

CHCC engages in various contracts with its vendors to sustain the operations of the hospital.

Future contract commitments are as follows:

Year ending September 30,	Minimum Future Contracts Due
2013	$ 1,987,733
2014	501,969
2015	120,297
2016	70,297
2017	70,297
	$ 2,750,593

(7) Contingency

At September 30, 2012, CHCC recorded outstanding withholding taxes (Chapter 2 local tax and Chapter 7 NMTIT) of $1,376,357. In addition, at September 30, 2012, CHCC recorded outstanding Medicare withholdings of $317,168. The related interest and penalties for late submission and payment of withholding taxes and Medicare withholdings have not been determined and, accordingly, is not recorded at September 30, 2012. CHCC management does not consider the related interest and penalties material to the financial statements.

(8) Subsequent Events

On November 18, 2013, it was disclosed that properties deeded to CHCC from the CNMI in January 2012 may revert to the CNMI and to the Department of Public Lands. The two properties deeded are located adjacent to the hospital and are currently encumbered by CHCC's loan with MPLT. The primary reason of this change is to increase the properties' earning potential. Management has not yet determined the effect of this change on the accompanying financial statements; however, the properties have not been recorded due to the incomplete status of the transfer document between CHCC and the CNMI.

(8) Subsequent Events, Continued

In November 2012, NMIRF sought guidance from the federal court relating to the legality of certain provisions authorized by Public Law 17-82. As a result, the distribution of employee contributions of DB Plan members who elected to terminate their membership and withdraw their contributions was ceased pending the federal court's guidance. As part of a settlement agreement discussed below, distribution of employee contributions resumed in August 2013.

On August 7, 2013, the United States District Court for the Northern Mariana Islands issued an order for the preliminary approval of Civil Case No. 09-00023, Class Action Settlement (Settlement), between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, NMIRF and others. The Settlement includes the creation of a Settlement Fund to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court.

As part of the Settlement, the CNMI agrees to make minimum annual payments to the Settlement Fund to allow for the payment of 75% of Class Members' full benefits annually during the Settlement Fund's expected life and as determined by an independent actuary appointed by the Trustee and approved by the District Court. In addition, the Settlement authorizes NMIRF to distribute employee contributions (exclusive of interest) of $10,000,000 to former members of the DB Plan who elected to terminate their membership in accordance with Public Law 17-82 with the remainder to be distributed upon final approval of the Settlement agreement. On September 30, 2013, the United States District Court for the Northern Mariana Islands approved the Settlement agreement. The Settlement agreement assigns to the CNMI all rights to collect deficient employer contributions from autonomous agencies, including CHCC.

On May 21, 2014 the CNMI Superior Court issued a temporary restraining order (TRO) and preliminary injunction prohibiting CUC from disconnecting any utility services provided to CHCC. On June 2, 2014, the Superior Court ordered CHCC to make timely payments of monthly billings, exclusive of interest or penalties, and determine non-essential meters to be terminated.