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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2013 AND 2012

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Commonwealth Healthcare Corporation (CHCC), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), which comprise the statements of net position as of September 30, 2013 and 2012, 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.

Basis for Disclaimer of Opinion

CHCC has not recorded capital assets, accumulated depreciation and depreciation expense as of and for the years ended September 30, 2013 and 2012. Capital asset additions totaling $1,287,134 and $115,907 were expensed during the years ended September 30, 2013 and 2012, respectively. Accounting principles generally accepted in the United States of America require capital assets to be capitalized and depreciated which would increase assets, net position and operating expenses of CHCC. The amount by which this departure would affect the assets, net position and operating expenses of CHCC has not been determined.

We were unable to determine the propriety of receivables, inventories, due to/from CNMI, accounts payable, due to related parties, accrued payroll, accrued taxes and other liabilities and related revenues, expenses and nonoperating income (expense) as of and for the years ended September 30, 2013 and 2012 as CHCC could not substantiate general ledger balances due to inadequacies in accounting records. CHCC received and recorded a litigation settlement of $1,779,237 at September 30, 2013. We were unable to determine the propriety of the settlement as the settlement agreement or other relevant data was not made available.

In addition, grant award documents for the Electronic Health Record incentive award was not made available. We were unable to evaluate and assess compliance, if any, with grant requirements and federal rules and regulations.

Disclaimer of Opinion

Because of the significance of the matters discussed in the "Basis for Disclaimer of Opinion" paragraphs, 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.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that CHCC will continue as a going concern. As discussed in note 8 to the financial statements, CHCC has incurred recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. 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 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. 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 engagement to audit 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2015 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 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 CHCC's internal control over financial reporting and compliance.

Deloitte & Touche LLC

February 24, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2013

INTRODUCTION

The Management's Discussion and Analysis (MD&A) of the Commonwealth Healthcare Corporation (CHCC) will serve as an overview of the audited financial statements of CHCC for fiscal year 2013. The information contained in the MD&A has been prepared by management and should be considered in conjunction with the financial statements and notes which follow this section. Fiscal year 2012 comparative information has been included where appropriate for comparative purposes.

FINANCIAL HIGHLIGHTS

- CHCC's net position decreased from $198,735 in fiscal year 2012 to $(1,651,343) in fiscal year 2013 due to bad debts recorded of $14,706,505.

- At September 30, 2013 and 2012, CHCC has not recorded accumulated capital assets; however, CHCC incurred machinery and equipment expense of $1,266,725, which will eventually be recorded as fixed assets, net of depreciation.

- CHCC has total assets of $19,239,829 and $16,639,817 as of September 30, 2013 and 2012, respectively, composed of cash, receivables, due from CNMI and inventories.

- CHCC's total liabilities as of September 30, 2013 and 2012 are $20,891,172 and $16,441,082, respectively.

- CHCC's operating revenues and expenses amounted to $29,608,622 and $35,221,811, respectively, with an operating loss of $5,613,189 for the year ended September 30, 2013.

- 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 the year ended September 30, 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) requires the presentation of an MD&A and the basic financial statements. The basic financial statements consist of a statement of net position, a statement of revenues, expenses and changes in net position, a statement of cash flows and notes to the financial statements.

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MD&A

The MD&A is a narrative section that introduces the basic financial statements. It should give readers an objective, easily understood and readable analysis of CHCC's financial performance for the year.

Statement of Net Position

The Statement of Net Position presents information similar to a balance sheet. It reflects CHCC's assets, liabilities and the resources remaining after liabilities are satisfied. The statement is an indicator of overall financial condition.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position is the operating statement for CHCC utilizing the accrual basis of accounting.

A summary of the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position is presented below:

Statements of Net Position

Assets	**2013**	**2012**
Current and other assets	$ 19,239,829	$ 16,639,817
Total assets	**$ 19,239,829**	**$ 16,639,817**
Liabilities and Net Position		
Liabilities:		
Current liabilities	$ 20,891,172	$ 16,441,082
Total liabilities	20,891,172	16,441,082
Net position:		
Unrestricted	(1,651,343)	198,735
Total net position	(1,651,343)	198,735
Total liabilities and net position	**$ 19,239,829**	**$ 16,639,817**

Statements of Revenues, Expenses and Changes in Net Position

	2013	**2012**
Operating revenues	$ 29,608,622	$ 29,651,097
Operating expenses	35,221,811	34,075,575
Operating loss	(5,613,189)	(4,424,478)
Nonoperating income (expense), net	3,763,111	4,623,213
Change in net position	(1,850,078)	198,735
Net position at beginning of year	198,735	-
Net position at end of year	**$ (1,651,343)**	**$ 198,735**

CHCC'S ANALYSIS AND FINANCIAL CONDITION

At the end of fiscal years 2013 and 2012, CHCC had total assets of $19,239,829 and $16,639,817, respectively, comprised of cash, general receivables, net of allowance for doubtful accounts, due from CNMI and inventories of medical and pharmaceutical supplies. CHCC has not 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 lines of credit of $3,000,000 and $3,328,655 as of September 30, 2013 and 2012, respectively. See note 3 to the financial statements for more detailed information on CHCC's notes payable to a related party.

Major expenses for CHCC are wages and salaries, utilities, employee benefits and medical supplies.

With the level of funding that CHCC receives from the CNMI government, it will continue to face financial challenges despite great improvements in collection of receivables compared to previous years. CHCC commits to strive and improve its healthcare system and to make its patient's experience the best quality care in the Commonwealth of the Northern Mariana Islands (CNMI).

CHCC has developed a Business and Strategic Plan to address and improve the current state of health in the CNMI.

CHALLENGES AND ACCOMPLISHMENTS

Over the year, CHCC continues to face challenges but has also made accomplishments:

a. CHCC will continue to attempt to hire a permanent Chief Financial Officer to fully address its overall financial condition.

b. CHCC will continue to address Medicare findings and citations and will also eliminate major findings as our plan for correction has been accepted.

c. CHCC finally obtained its Clinical Laboratory Improvement Amendments Certification up to year 2017 and has a Laboratory Director/Pathologist on staff.

d. We have sufficient physicians at CHCC.

e. CHCC has implemented the Electronic Health Record system. Although 75% operational, the system will improve the billing process and increase revenue.

ECONOMIC OUTLOOK

CHCC has experienced many challenges but anticipates and envisions more improvements as there is more that needs to be done. CHCC's challenges are currently being addressed and handled distinctively.

The Management's Discussion and Analysis for the year ended September 30, 2012 is set forth in CHCC's report on the audit of financial statements, which is dated December 4, 2014. That Discussion and Analysis explains the major factors impacting the 2012 financial statements and can be viewed at the Office of the Public Auditor's website at www.opacnmi.com.

CONTACTING CHCC'S FINANCIAL MANAGEMENT

This financial 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 or its Acting Chief Financial Officer at 234-8950, Monday through Friday, 8:00 am to 5:00 pm, except on recognized CNMI government holidays.

COMMONWEALTH HEALTHCARE CORPORATION

Statements of Net Position
September 30, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash	$ 3,916,033	$ 6,975,200
Receivables:		
Third party insurers	78,936,015	73,696,467
Medicaid	76,994,907	76,057,990
Patient	65,516,083	56,457,797
Medicare	7,141,889	6,198,635
Other	42,050	498
	228,630,944	212,411,387
Less allowance for doubtful accounts	(217,813,527)	(203,107,022)
Total receivables, net	10,817,417	9,304,365
Due from CNMI	2,066,439	-
Inventories	2,439,940	360,252
	$ 19,239,829	$ 16,639,817

LIABILITIES AND NET POSITION	2013	2012
Current liabilities:		
Notes payable to a related party	$ 3,000,000	$ 3,328,655
Accounts payable	2,013,960	2,082,466
Due to related parties	12,717,753	7,597,340
Accrued payroll	995,134	1,123,996
Accrued taxes and other liabilities	1,030,184	2,308,625
Unearned revenue	1,134,141	-
Total liabilities	20,891,172	16,441,082
Commitments and contingencies		
Net position:		
Unrestricted	(1,651,343)	198,735
Total net position	(1,651,343)	198,735
	$ 19,239,829	$ 16,639,817

See accompanying notes to financial statements.

COMMONWEALTH HEALTHCARE CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Operating revenues:		
Hospital services	$ 44,221,146	$ 28,250,264
Other revenue	88,481	1,382,833
Contributions	5,500	18,000
	44,315,127	29,651,097
Bad debts	(14,706,505)	-
Total operating revenues, net	29,608,622	29,651,097
Operating expenses:		
Wages and salaries	16,771,660	15,869,511
Utilities	5,766,767	4,959,282
Employee benefits	3,981,060	5,456,071
Supplies	3,403,285	4,057,107
Professional services	1,666,499	854,925
Machinery and equipment	1,266,725	26,890
Repair and maintenance	674,550	360,675
Cleaning services	545,975	552,837
Recruitment/repatriation	261,234	309,829
Travel	180,164	121,062
Communications	171,664	283,176
Food items	169,775	118,943
Fuel and lubricants	129,106	244,475
Printing and photocopying	85,795	60,908
Freight and handling	68,395	47,670
Licenses and fees	48,501	37,371
Office equipment	18,865	1,828
Rentals	10,247	4,800
Building improvements	1,544	7,400
Furniture and fixtures	-	79,789
Miscellaneous	-	621,026
Total operating expenses	35,221,811	34,075,575
Operating loss	(5,613,189)	(4,424,478)
Nonoperating income (expense):		
CNMI appropriation	1,932,150	4,723,468
Settlements	1,779,237	-
Grant contributions	268,907	-
Interest expense	(217,183)	(100,255)
Total nonoperating income (expense), net	3,763,111	4,623,213
Change in net position	(1,850,078)	198,735
Net position at beginning of year	198,735	-
Net position at end of year	$ (1,651,343)	$ 198,735

See accompanying notes to financial statements.

COMMONWEALTH HEALTHCARE CORPORATION

Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	$ 27,163,272	$ 20,346,732
Cash payments to suppliers for goods and services	(12,775,313)	(1,761,607)
Cash payments to employees for services	(20,881,582)	(19,561,793)
Net cash used for operating activities	(6,493,623)	(976,668)
Cash flows from financing activities:		
Cash received from the CNMI	1,932,150	4,723,468
Other contributions received	268,907	-
Settlements	1,779,237	-
Proceeds from notes payable	3,000,000	3,328,655
Payment of notes payable	(3,328,655)	-
Interest paid on notes payable	(217,183)	(100,255)
Net cash provided by financing activities	3,434,456	7,951,868
Net (decrease) increase in cash	(3,059,167)	6,975,200
Cash at beginning of year	6,975,200	-
Cash at end of year	$ 3,916,033	$ 6,975,200
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (5,613,189)	$ (4,424,478)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Bad debts	14,706,505	-
(Increase) decrease in assets:		
Receivables:		
General	(16,178,005)	(9,304,365)
Other	(41,552)	-
Due from CNMI	(2,066,439)	-
Inventories	(2,079,688)	(360,252)
Increase (decrease) in liabilities:		
Accounts payable	(68,506)	2,082,466
Due to related parties	5,120,413	7,597,340
Unearned revenue	1,134,141	-
Accrued payroll	(128,862)	1,123,996
Accrued taxes and other liabilities	(1,278,441)	2,308,625
Net cash used for operating activities	$ (6,493,623)	$ (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 CPA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. CPA 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 on 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 Public Law 3-68, the Planning and Budgeting Act of 1983, CHCC is required to submit annual budgets 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.

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.

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

For purposes of the statements of net position and cash flows, CHCC considers all cash held in demand accounts to be cash. At September 30, 2013 and 2012, total cash was $3,916,033 and $6,975,200, respectively, and the corresponding bank balances were $4,461,108 and $1,401,569, respectively. All bank balances are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. CNMI law does not require component unit funds to be collateralized and thus CHCC's funds, in excess of FDIC insurance, are uncollateralized. Accordingly, these 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 recorded bad debts of $14,706,505 and $-0- during the years ended September 30, 2013 and 2012, respectively.

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 years ended September 30, 2013 and 2012.

Unearned Revenue

Unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned. Unearned revenue of $1,134,141 and $-0- as of September 30, 2013 and 2012, respectively, relates to advances received from the CNMI Government for the Electronic Health Record incentive program.

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.

(2) Summary of Significant Accounting Policies, Continued

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, 16-36, 17-79 and 17-82.

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 fiscal years ended September 30, 2013 and 2012 have 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, 2013 and 2012 is 72.7215% and 60.8686%, respectively, of covered payroll. CHCC's recorded DB contributions to the Fund for the years ended September 30, 2013 and 2012 were $253,729 and $3,070,449, respectively.

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.

For the years ended September 30, 2013 and 2012, CHCC contributed social security benefits of $254,398 and $-0-, respectively. In addition, all but nine active employees voluntarily terminated membership in the DB Plan.

(2) Summary of Significant Accounting Policies, Continued

Defined Benefit Plan (DB Plan), Continued

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.

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 years ended September 30, 2013 and 2012 were $236,877 and $288,349, respectively.

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.

Net Position

CHCC's net position is classified as follows:

- Invested in capital assets: capital assets, net of accumulated depreciation. CHCC has not recorded net position invested in capital assets at September 30, 2013 and 2012.

- Restricted: net position 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 position at September 30, 2013 and 2012.

(2) Summary of Significant Accounting Policies, Continued

Net Position, Continued

- Unrestricted: net position that is 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, 2013 amounted to $1,659,713, which was not recorded at September 30, 2013. 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 of $15,467,734 for the year ended September 30, 2013. CHCC management has not tracked the amount of contractual adjustments for purposes of disclosure during the year ended September 30, 2012.

New Accounting Standards

During the year ended September 30, 2013, CHCC implemented the following pronouncements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements, which* addressed 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 implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, which* improved 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 implementation of this statement 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. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced 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 issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement no. 62 superceded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB 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. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets.

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 N*o. 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of CHCC.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. 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

	2013	2012
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, 2013. The note is collateralized by CHCC's accounts receivable, future distributable income in fiscal year 2015 and CHCC's real properties for CHCC's operational and bridge capital pursuant to CNMI Public Law No. 17-76.	$ 3,000,000	$ -
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

(3) Notes Payable to a Related Party, Continued

	2013	2012
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
	$ 3,000,000	$ 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 two years.

(5) Related Party Transactions

Total related party transactions for the years ended September 30, 2013 and 2012, and the related receivable and payable balances, are as follows:

(5) Related Party Transactions, Continued

	2013			
	Revenues and Other Contributions	Expenses	Payables	Receivables
Commonwealth Utilities Corporation	$ -	$ 5,766,767	$ 8,996,577	$ -
CNMI Government	1,932,150	402,939	788,270	2,066,439
Northern Mariana Islands Retirement Fund	-	253,729	2,932,906	-
	$ 1,932,150	$ 6,423,435	$ 12,717,753	$ 2,066,439

	2012			
	Revenues and Other Contributions	Expenses	Payables	Receivables
Commonwealth Utilities Corporation	$ -	$ 4,959,282	$ 4,517,438	$ -
CNMI Government	3,756,311	385,331	385,331	-
Northern Mariana Islands Retirement Fund	-	3,070,449	2,694,571	-
	$ 3,756,311	$ 8,415,062	$ 7,597,340	$ -

Notes payable to MPLT amounted to $3,000,000 and $3,328,655 at September 30, 2013 and 2012, respectively. Interest expense on the notes for the years ended September 30, 2013 and 2012 amounted to $217,183 and $100,255, respectively.

CHCC recorded contributions of $1,932,150 and $4,723,468 from the CNMI during the years ended September 30, 2013 and 2012, respectively. Due from CNMI of $2,066,439 relates to an unreconciled amount at September 30, 2013. Due to the CNMI relates to the 1% Public Auditor fee of $788,270 and $385,331 at September 30, 2013 and 2012, respectively.

(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. Total lease income for the years ended September 30, 2013 and 2012 amounted to $72,575 and $74,152, respectively. Minimum future lease income is as follows:

Year ending September 30,	Minimum Lease Income Due
2014	$ 79,500
2015	79,500
2016	79,500
2017	13,250
	$ 251,750

CHCC engages in various contracts with its vendors to sustain the operations of the hospital. Future contract commitments are as follows:

(6) Commitments, Continued

Year ending September 30,	Minimum Future Contracts Due
2014	$ 501,969
2015	120,297
2016	70,297
2017	70,297
	$ 762,860

(7) Contingencies

At September 30, 2013 and 2012, CHCC recorded outstanding withholding taxes (Chapter 2 local tax and Chapter 7 NMTIT) of $665,083 and $1,376,357, respectively. In addition, at September 30, 2013 and 2012, CHCC recorded outstanding Medicare withholdings of $217,512 and $317,168, respectively. 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, 2013 and 2012, respectively. CHCC management does not consider the related interest and penalties material to the financial statements.

(8) Going Concern

CHCC incurred operating losses of $5,613,189 and $4,424,478 and negative cash flows from operations of $6,493,623 and $976,668 for the years ended September 30, 2013 and 2012, respectively. CHCC recorded bad debts of $14,706,505 and $0 for the fiscal years ended September 30, 2014 and 2013, respectively. At September 30, 2014 and 2013, delinquent utility charges including penalties due to the Commonwealth Utilities Corporation (CUC) amounted to $8,996,577 and $4,517,438, respectively. See note 9 relative to a temporary restraining order issued to CUC by the CNMI Superior Court.

CHCC management has taken the following actions and measures to address losses and negative cash flows from operations:

- Evaluation of the fee structure to determine if changes are necessary;
- Evaluation of the billing system and collection processes to determine changes to be made;
- Evaluation of the personnel structure to determine if changes are necessary; and
- Development of a business and strategic plan.

CHCC is dependent on the CNMI Government to provide additional funding for operations.

(9) 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.

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.