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

REPORT ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2015

Deloitte.

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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, 2015 and 2014, 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

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, CHCC has not recorded pension expense and related revenue for the year ended September 30, 2015. GASB Statement No. 68 requires an employer that has a special funding situation to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the CNMI primary government as a non-employer contributing entity. The effects of this departure from accounting principles generally accepted in the United States of America on the financial statements have not been determined.

CHCC did not conduct a physical inventory of its capital assets during the years ended September 30, 2015 and 2014. In addition, capital asset additions totaling $471,044 and $894,238 were expensed during the years ended September 30, 2015 and 2014, respectively. Accounting principles generally accepted in the United States of America require capital assets to be capitalized and depreciated.

We were unable to determine the propriety of receivables, advances, inventories, due to/from CNMI, accounts payable, due to related parties, accrued taxes and other liabilities and related revenues, expenses and nonoperating income (expense) as of and for the year ended September 30, 2015 and 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 year ended September 30, 2014 as CHCC could not substantiate general ledger balances due to inadequacies in accounting records.

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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

Going Concern

The accompanying financial statements have been prepared assuming that CHCC will continue as a going concern. As discussed in note 9 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 9. 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 7 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 March 30, 2017 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

March 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2015

INTRODUCTION

Public Law 16-51 established a public corporation for healthcare and related public health services known as the Commonwealth Healthcare Corporation (CHCC), to "coordinate the delivery of quality healthcare to all Commonwealth residents in a financially responsible manner... the Commonwealth Healthcare Corporation is intended to be a professionally managed, nationally accredited, independent public healthcare institution that is as financially self-sufficient and independent of the Commonwealth Government as is possible".

Four years after its establishment CHCC has experienced successes along with struggles and challenges. This included new challenges with the Commonwealth of the Northern Mariana Islands (CNMI) first communication "black-out" and destruction from a major typhoon that required the only hospital in the CNMI to go beyond its routine services to ensure minimal negative health impact for the people of the CNMI.

The following Management's Discussion & Analysis (MD&A) of CHCC activities and financial performance will serve as an introduction and overview of the audited financial statements of CHCC for fiscal year 2015. 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 follows this section. Fiscal years 2014 and 2013 comparative information have been included where appropriate.

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Financial Highlights

- CHCC's net position increased from $35,972,699 in fiscal year 2014 to $56,793,610 in fiscal year 2015 due to increases in operating and non-operating revenues of $20,688,541 and $346,883, respectively. Another contributing factor is a reduction in operating expenses of $2,077,535.

- CHCC'S net position increased from $(1,651,343) in fiscal year 2013 to $35,972,699 in fiscal year 2014 due to capital contributions of $39,916,090 from the CNMI government and a decrease in bad debts recorded from $14,706,505 in fiscal year 2013 to $9,434,557 in fiscal year 2014.

- CHCC recorded capital assets of $39,916,090 at September 30, 2015 and 2014, which resulted from assets transferred from the CNMI government to CHCC. CHCC expensed machinery, office equipment, furniture and fixtures of $471,044, $894,238 and $1,287,134 at September 30, 2015, 2014 and 2013, respectively, which will be capitalized in fiscal year 2016.

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OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS, CONTINUED

Financial Highlights, Continued

- CHCC's total assets increased from $64,608,791 in fiscal year 2014 to $91,543,131 in fiscal year 2015 and from $19,239,829 in fiscal year 2013 to $64,608,791 in fiscal year 2014. Total assets are composed of cash, receivables, advances, due from CNMI, inventories and capital assets, net of accumulated depreciation.

- CHCC's total liabilities increased from $28,636,092 in fiscal year 2014 to $34,749,521 in fiscal year 2015 and from $20,891,172 in fiscal year 2013 to $28,636,092 in fiscal year 2014.

- CHCC's operating revenues increased from $38,508,072 in fiscal year 2014 to $59,196,613 in fiscal year 2015 and from $29,608,622 in fiscal year 2013 to $38,508,072 in fiscal year 2014.

- CHCC's operating expenses decreased from $42,592,687 in fiscal year 2014 to $40,515,152 in fiscal year 2015 and increased from $35,221,811 in fiscal year 2013 to $42,592,687 in fiscal year 2014.

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

Statements of Net Position

Assets	**2015**	**2014**	**2013 (As Restated)**
Current assets	$ 51,627,041	$ 24,692,701	$ 19,239,829
Capital assets, net of accumulated depreciation	39,916,090	39,916,090	-
Total assets	$ 91,543,131	$ 64,608,791	$ 19,239,829
Liabilities and Net Position			
Liabilities:			
Current liabilities	$ 34,749,521	$ 28,636,092	$ 20,891,172
Total liabilities	34,749,521	28,636,092	20,891,172
Net position:			
Net investment in capital assets	39,916,090	39,916,090	-
Restricted	2,543,012	1,432,312	779,237
Unrestricted	14,334,508	(5,375,703)	(2,430,580)
Total net position	56,793,610	35,972,699	(1,651,343)
Total liabilities and net position	$ 91,543,131	$ 64,608,791	$ 19,239,829

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

Statements of Revenues, Expenses and Changes in Net Position

	2015	2014	2013
Operating revenues	$59,196,613	$ 38,508,072	$ 29,608,622
Operating expenses	40,515,152	42,592,687	35,221,811
Operating loss	18,681,461	(4,084,615)	(5,613,189)
Nonoperating income (expense), net	2,139,450	1,792,567	3,763,111
Income (loss) before capital contributions	20,820,911	(2,292,048)	(1,850,078)
Capital contributions	-	39,916,090	-
Change in net position	20,820,191	37,624,042	(1,850,078)
Net position at beginning of year	35,972,699	(1,651,343)	198,735
Net position at end of year	$ 56,793,610	$ 35,972,699	$ (1,651,343)

Statements of Cash Flows

	2015	2014	2013
Cash flows from operating activities	$ (209,821)	$ (4,622,022)	$ (6,493,623)
Cash flows from financing activities	2,139,450	1,792,567	3,434,456
Net increase (decrease) in cash	1,929,629	(2,829,455)	(3,059,167)
Cash at beginning of year	1,086,578	3,916,033	6,975,200
Cash at end of year	$ 3,016,207	$ 1,086,578	$ 3,916,033

CHCC'S ANALYSIS AND FINANCIAL CONDITION

At the end of fiscal years 2015, 2014 and 2013, CHCC had total assets of $91,543,131, $64,608,791 and $19,239,829, respectively. These are comprised of cash, receivables net of allowance for doubtful accounts, advances, due from the CNMI, inventories of medical and pharmaceutical supplies and contributed capital assets from the CNMI government.

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

CHCC has notes payable of $3,000,000 due to the Marianas Public Land Trust (MPLT) resulting from an available line of credit from MPLT to CHCC. This $3,000,000 line of credit note payable was also incurred in fiscal years 2014 and 2013. See note 4 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, benefits, including retirement contributions, payroll taxes, medical supplies including pharmaceuticals, and utilities.

Considering the historic funding levels appropriated to CHCC since its inception in October 2011, CHCC has progressed tremendously. Despite all the challenges, CHCC has been able to significantly increase operating revenues in fiscal year 2015 as compared to fiscal years 2014 and 2013. Moreover, CHCC reduced operating expenses by $2,077,535 in 2015 compared to fiscal year 2014. A major factor in this condition is due to CHCC's conservation efforts in utilities resulting in a reduction of $1,031,517 compared to fiscal year 2014. These conservation efforts were largely due to investments in energy efficient equipment, which did not pose any risks on the hospital side in terms of managing facility temperatures for infection control. Furthermore, hospital service revenues increased by $10,990,570 illustrating great strides CHCC has made in terms of efforts to properly bill and generate revenues for services rendered. CHCC is committed and focused on striving to provide the highest level of quality for the CNMI's healthcare system.

Capital Assets

At September 30, 2015 and 2014, CHCC had $39,916,090, net investment in capital assets. See notes 2 and 3 to the financial statements for more detailed information on CHCC's capital assets.

CHALLENGES AND ACCOMPLISHMENTS

Four years after its establishment, the insufficient financial support of CHCC is essentially still a lingering factor in the agency's struggles and challenges. CHCC is considered a "safety net" hospital, providing care for the indigent and uninsured population of the CNMI. In addition, CHCC is not receiving the local match for reimbursement of services to Medicaid clients. Meanwhile, hospital revenues, at times, provide advance payment of federal funds to support its programs and activities. Despite these continued challenges, there were accomplishments:

a. Improvements to hospital and health services continued, including ensuring staff are paid on time, supplies and diagnostic tests are available, health services are accessible, quality control monitoring was performed, repairs and maintenance were completed and overall, ensuring patient safety and quality care;

b. A resurvey from the Centers for Medicare & Medicaid Services (CMS) was conducted and resulted in a reduction of noncompliance to seven hospital Conditions of Participation;

c. The Plans of Correction for End Stage Renal Disease (ESRD) program (Dialysis) was accepted by CMS and all ESRD Conditions of Participation were removed;

d. During and after the arrival of several typhoons, including the devastating Typhoon Soudelor, CHCC managed to ensure no disruption of services to the CNMI's only hospital and to federal programs and activities, such as the Special Supplemental Nutrition Program for Women, Infants, and Children Program;

e. CHCC extended services for a month to those with "special needs", especially needing electricity for their chronic illness treatment, post Typhoon Soudelor and during island recovery to restore power;

f. Strengthening of hospital and public health collaboration was seen throughout the agency;

g. CHCC Strategic Plan was conducted, completed and published in January 2015; and

h. CHCC provided specialist services in dermatology and otolaryngology through physician locums and mission arrangements.

ECONOMIC OUTLOOK

CHCC continues to make improvements throughout the health system in Saipan, Rota and Tinian and priority is ensuring services are always available and accessible. That priority remains but there should be more emphasis and sufficient investment in improving information technology (IT) (electronic medical records, vital statistics and data collection) and the accounting system (accounts payable, financial reporting and accounts receivable).

CHCC significantly improved staffing development and reorganization, including providing proper tools to assist in the improvements. With improvements in IT and Accounting, CHCC aims to financially improve and be able to provide and expand its services, including removing audit findings by the end of FY 2017.

The Management's Discussion and Analysis for the year ended September 30, 2014 is set forth in CHCC's report on the audit of financial statements, which is dated September 15, 2015. That Discussion and Analysis explains the major factors impacting the 2014 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 receives. If you have any questions about this report or need additional information, please contact CHCC's Chief Executive Officer or Chief Financial Officer at (670) 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, 2015 and 2014

ASSETS	2015	2014
Current assets:		
Cash	$ 3,016,207	$ 1,086,578
Receivables:		
Patient	27,257,140	19,386,190
Medicare	21,231,228	7,386,218
Third party insurers	13,463,372	12,436,259
Medicaid	5,596,484	3,640,664
Other	207,524	141,170
	67,755,748	42,990,501
Less allowance for doubtful accounts	(24,141,067)	(24,141,067)
Total receivables, net	43,614,681	18,849,434
Advances	793,360	362,953
Due from CNMI	1,874,364	2,037,221
Inventories	2,328,429	2,356,515
Total current assets	51,627,041	24,692,701
Capital assets, net of accumulated depreciation	39,916,090	39,916,090
Total assets	$ 91,543,131	$ 64,608,791
LIABILITIES AND NET POSITION		
Current liabilities:		
Notes payable to a related party	$ 3,000,000	$ 3,000,000
Accounts payable	5,643,107	5,582,711
Due to related parties	19,938,592	15,569,966
Accrued payroll	421,593	938,328
Accrued taxes and other liabilities	5,581,592	3,052,309
Unearned revenue	164,637	492,778
Total liabilities	34,749,521	28,636,092
Commitments and contingencies		
Net position:		
Net investment in capital assets	39,916,090	39,916,090
Restricted	2,543,012	1,432,312
Unrestricted	14,334,508	(5,375,703)
Total net position	56,793,610	35,972,699
	$ 91,543,131	$ 64,608,791

See accompanying notes to financial statements.

COMMONWEALTH HEALTHCARE CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2015 and 2014

	2015	2014
Operating revenues:		
Hospital services	$ 58,666,380	$ 47,675,810
Other revenue	518,273	266,819
Contributions	11,960	-
	59,196,613	47,942,629
Bad debts	-	(9,434,557)
Total operating revenues, net	59,196,613	38,508,072
Operating expenses:		
Wages and salaries	22,118,926	20,480,124
Supplies	5,651,873	5,846,323
Utilities	4,679,053	5,710,570
Employee benefits	2,980,978	3,710,364
Professional services	2,048,289	1,931,104
Repair and maintenance	705,451	673,093
Cleaning services	563,449	509,932
Food items	268,296	211,839
Communications	204,302	142,260
Fuel and lubricants	181,409	155,516
Travel	148,476	201,659
Recruitment/repatriation	140,691	267,955
Machinery and equipment	126,953	275,053
Building improvements	70,054	62,671
Printing and photocopying	56,593	83,313
Rentals	54,642	52,787
Freight and handling	50,438	73,486
Licenses and fees	39,166	45,341
Vehicles	16,498	-
Furniture and fixtures	16,378	529
Office equipment	-	16,783
Miscellaneous	393,237	2,141,985
Total operating expenses	40,515,152	42,592,687
Operating income (loss)	18,681,461	(4,084,615)
Nonoperating income (expense):		
Federal grant contributions	13,102,042	12,742,223
CNMI appropriation	1,208,675	1,208,675
Interest expense	(192,658)	(177,779)
Federal grant expenses	(11,978,609)	(11,980,552)
Total nonoperating income (expense), net	2,139,450	1,792,567
Income (loss) before capital contributions	20,820,911	(2,292,048)
Capital contributions	-	39,916,090
Change in net position	20,820,911	37,624,042
Net position at beginning of year	35,972,699	(1,651,343)
Net position at end of year	$ 56,793,610	$ 35,972,699

See accompanying notes to financial statements.

COMMONWEALTH HEALTHCARE CORPORATION

Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	$ 34,266,082	$ 29,863,908
Cash payments to suppliers for goods and services	(8,859,264)	(10,238,636)
Cash payments to employees for services	(25,616,639)	(24,247,294)
Net cash used for operating activities	(209,821)	(4,622,022)
Cash flows from financing activities:		
Cash received from the CNMI	1,208,675	1,208,675
Federal and other contributions received	13,102,042	12,742,223
Payments made under federal programs	(11,978,609)	(11,980,552)
Proceeds from notes payable	3,000,000	3,000,000
Payment of notes payable	(3,000,000)	(3,000,000)
Interest paid on notes payable	(192,658)	(177,779)
Net cash provided by financing activities	2,139,450	1,792,567
Net increase (decrease) in cash	1,929,629	(2,829,455)
Cash at beginning of year	1,086,578	3,916,033
Cash at end of year	$ 3,016,207	$ 1,086,578
Reconciliation of operating income (loss) to net cash used for operating activities:		
Operating income (loss)	$ 18,681,461	$ (4,084,615)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:		
Bad debts	-	9,434,557
(Increase) decrease in assets:		
Receivables:		
General	(24,698,893)	(17,367,454)
Other	(66,354)	(99,120)
Advances	(430,407)	(362,953)
Due from CNMI	162,857	29,218
Inventories	28,086	83,425
Increase (decrease) in liabilities:		
Accounts payable	60,396	3,568,751
Due to related parties	4,368,626	2,852,213
Accrued payroll	(516,735)	(56,806)
Accrued taxes and other liabilities	2,529,283	2,022,125
Unearned revenue	(328,141)	(641,363)
Net cash used for operating activities	$ (209,821)	$ (4,622,022)

Supplemental disclosure of noncash transactions:

During the years ended September 30, 2015 and 2014, respectively, CHCC recorded the following noncash transactions as a result of the transfer of capital assets from the CNMI:

	2015	2014
Noncash increase in capital assets	$ -	$ 39,916,090
Noncash increase in capital contributions	-	(39,916,090)
	$ -	$ -

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. CHCC 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

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, 2015 and 2014, total cash was $3,016,207 and $1,086,578, respectively, and the corresponding bank balances were $3,901,161 and $1,579,261, 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 payers (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.

Management believes there are no significant credit risks associated with receivables from government programs. Receivables from managed care programs and others are from various payers 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. At September 30, 2015 and 2014, CHCC wrote-off accounts receivable of $-0- and $203,107,017, respectively. CHCC recorded bad debts of $-0- and $9,434,557 during the years ended September 30, 2015 and 2014, respectively.

Inventories

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

Capital Assets

In accordance with CNMI Public Law 16-51, the CNMI is required to transfer 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. During the years ended September 30, 2015 and 2014, the CNMI transferred capital assets totaling $-0- and $65,868,991, respectively, and related accumulated depreciation of $-0- and $25,952,901, respectively, to CHCC. CHCC has adopted a policy to capitalize items with costs in excess of $2,500.

(2) Summary of Significant Accounting Policies, Continued

Unearned Revenue

Unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned. Unearned revenue of $164,637 and $492,778 as of September 30, 2015 and 2014, respectively, relates to advances received from the CNMI Government for the Electronic Health Record incentive program.

Retirement Plan

CHCC 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). CHCC 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, to buy quarters of service in the U.S. Social Security system from contributions made to the DB Plan. In addition, Public Law 17-82 provides active and inactive DB Plan members the option to voluntarily terminate membership in the DB Plan, withdraw or roll over contributions to the DC Plan and to participate in the U.S. Social Security system without termination of employment or penalty. Further, Public Law 17-82 allows the CNMI Government to continue remitting its 4% employer contribution to the DC Plan unless the employee ceases to contribute its employee share.

On March 11, 2013, Public Law 18-02 was enacted to amend Public Law 17-82 to clarify those provisions necessary to expedite the refunds and to prevent any further frustration of the process. Included in the public law is the amendment of Section 203(a) of Title 1, Division 8, Part 3, which states that the government obligation to withhold and remit the employee's portion to the employee's defined account shall continue with respect to employees who do not terminate membership in the DB Plan. All but nine active CHCC employees voluntarily terminated membership in the DB Plan and CHCC contributed $204,315, $183,094 and $254,398 to the DB Plan during the years ended September 30, 2015, 2014 and 2013, respectively.

For the years ended September 30, 2015, 2014 and 2013, CHCC contributed to the U.S. Social Security system benefits of $1,764,620, $1,302,829 and $1,017,297, respectively.

(2) Summary of Significant Accounting Policies, Continued

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. Public Law 17-82 requires CHCC to contribute to each member's individual account an amount equal to 4% unless the employee ceases to contribute its employee share. CHCC's recorded DC contributions for the years ended September 30, 2015, 2014 and 2013 were $404,298, $402,996 and $236,877, 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.
- 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. A restricted net position of $2,543,012 and $1,432,312 is recorded at September 30, 2015 and 2014, respectively, based on the differential between recorded restricted receipts and restricted expenses.
- Unrestricted: net position that is not subject to externally imposed stipulations.

Compensated Absences

The accumulated vacation leave liability as of September 30, 2015 and 2014 amounted to $2,850,521 and $2,403,117, which management has elected not to record at September 30, 2015 and 2014, respectively.

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 $8,784,252 and $8,307,292 for the years ended September 30, 2015 and 2014, respectively.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During fiscal year 2015, the following pronouncements were implemented:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of* GASB *Statement No. 68,* which revise and establish 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 CHCC. CHCC has not recorded related revenues and pension expense for the year ended September 30, 2015 as amounts were not available.

- GASB 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 implementation of this statement did not have a material effect on the accompanying financial statements.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application,* which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The provisions in Statement No. 72 are effective for fiscal years beginning after June 15, 2015. Management believes that the implementation of this statement only requires additional disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques and will not have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The provisions in Statement No. 76 are effective for fiscal years beginning after June 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

Estimates

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

(3) Capital Assets

Capital asset balances consist of the following as of September 30, 2015 and 2014:

	Estimated Useful Lives	Balance October 1, 2014	Increases	Decreases	Balance September 30, 2015
Assets not being depreciated:					
Construction in progress		$ 2,156,816	$ -	$ -	$ 2,156,816
Capital assets being depreciated:					
Building	15 - 50 years	34,275,607	-	-	34,275,607
Machinery and equipment	5 - 10 years	3,483,667	-	-	3,483,667
		37,759,274	-	-	37,759,274
Less accumulated depreciation		-	-	-	-
Total capital assets being depreciated		37,759,274	-	-	37,759,274
Total capital assets, net		$ 39,916,090	$ -	$ -	$ 39,916,090

	Estimated Useful Lives	Balance October 1, 2013	Increases	Decreases	Balance September 30, 2014
Assets not being depreciated:					
Construction in progress		$ -	$ 2,156,816	$ -	$ 2,156,816
Capital assets being depreciated:					
Building	15 - 50 years	-	34,275,607	-	34,275,607
Machinery and equipment	5 - 10 years	-	3,483,667	-	3,483,667
		-	37,759,274	-	37,759,274
Less accumulated depreciation		-	-	-	-
Total capital assets being depreciated		-	37,759,274	-	37,759,274
Total capital assets, net		$ -	$ 39,916,090	$ -	$ 39,916,090

On November 18, 2013, CHCC was advised 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 for 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 property has not been recorded due to the incomplete status of the transfer document between CHCC and the CNMI.

(4) Notes Payable to a Related Party

	2015	2014
Note payable to the Marianas Public Land Trust (MPLT), bearing interest at 5% per annum, due over a one-year term, beginning on June 10, 2015. The note is collateralized by CHCC's accounts receivable, future distributable income in fiscal year 2016 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 MPLT, bearing interest at 7% per annum, due on June 4, 2015. The note is collateralized by 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. The note was paid in full on June 2, 2015.	-	3,000,000
	$ 3,000,000	$ 3,000,000

(5) 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.

(6) Related Party Transactions

Total related party transactions for the years ended September 30, 2015 and 2014, and the related receivable and payable balances, are as follows:

	2015			
	Revenues and Other Contributions	Expenses	Payables	Receivables
Commonwealth Utilities Corporation	$ -	$ 4,679,053	$ 15,168,602	$ -
CNMI Government	1,208,675	398,682	4,769,990	1,874,364
	$ 1,208,675	$ 5,077,735	$ 19,938,592	$ 1,874,364

	2014			
	Revenues and Other Contributions	Expenses	Payables	Receivables
Commonwealth Utilities Corporation	$ -	$ 5,837,899	$ 11,185,488	$ -
CNMI Government	1,208,675	359,421	4,384,478	2,037,221
	$ 1,208,675	$ 6,197,320	$ 15,569,966	$ 2,037,221

(6) Related Party Transactions, Continued

Notes payable to MPLT aggregate $3,000,000 at September 30, 2015 and 2014. Related interest expense for the years ended September 30, 2015 and 2014 amounted to $192,658 and $177,779, respectively.

CHCC recorded contributions of $1,208,675 from the CNMI during the years ended September 30, 2015 and 2014. Due from CNMI of $1,874,364 and $2,037,221 relates to unreconciled amounts at September 30, 2015 and 2014, respectively. Due to the CNMI relates to the 1% Public Auditor fee of $1,546,373 and $1,147,691 at September 30, 2015 and 2014, respectively, and also includes $3,223,617 and $3,236,787, respectively, related to CHCC's contribution to the DB Plan (see note 8).

(7) 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, 2015 and 2014 is $80,313 and $79,500, respectively. Minimum future lease income is as follows:

Year ending September 30,	Minimum Lease Income Due
2016	$ 79,500
2017	13,250
	$ 92,750

CHCC engages in various contracts to sustain hospital operations. Future contract commitments for the year ended September 30, 2015 has not been determined.

(8) Contingencies

At September 30, 2015 and 2014, CHCC recorded outstanding Medicare withholdings of $1,641,933 and $680,646, respectively. The related interest and penalties for late submission and payment of Medicare withholdings have not been determined and, accordingly, is not recorded at September 30, 2015 and 2014. CHCC management does not consider the related interest and penalties material to the financial statements.

CHCC 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 $1,869,777 have been set forth in CHCC's Single Audit Report for the year ended September 30, 2015. 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.

(8) Contingencies, Continued

In April 2012, a court order was issued by the CNMI Superior Court authorizing autonomous agencies to remit employer contributions of 30% of covered payroll to NMIRF. On September 30, 2013, the United States District Court for the Northern Mariana Islands approved a Settlement agreement in a 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 the 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. Further, Section 8.1 of the Settlement assigns the CNMI the rights to collect deficient employer contributions and related costs as of August 6, 2013 from autonomous agencies.

At September 30, 2015 and 2014, CHCC recorded outstanding and deficient employer contributions due to the CNMI of $3,223,617 and $3,236,787, respectively. The amount confirmed by the CNMI was $6,842,972 (inclusive of interest totaling $174,483) resulting in a variance of $3,619,355 and $3,606,185 at September 30, 2015 and 2014, respectively. An assessment of the outstanding and deficient employer contributions has not been determined and, accordingly, employer contributions of $3,619,355 and $3,606,185 are not reflected in the accompanying financial statements at September 30, 2015 and 2014, respectively.

(9) Going Concern

CHCC incurred operating income (losses) of $18,681,461 and $(4,084,615) and negative cash flows from operations of $209,821 and $4,622,022 for the years ended September 30, 2015 and 2014, respectively. During the year ended September 30, 2015, CHCC did not perform an assessment of the allowance for doubtful accounts. CHCC recorded bad debts of $-0- and $9,434,557 for the fiscal years ended September 30, 2015 and 2014, respectively. At September 30, 2015 and 2014, delinquent utility charges, excluding penalties due, to the Commonwealth Utilities Corporation (CUC) amounted to $15,168,602 and $11,185,488, respectively. At September 30, 2015 and 2014, total penalties and late charges assessed by CUC amounted to $3,146,127 and $1,864,433, respectively. CHCC has not recorded the penalties due at September 30, 2015 and 2014. 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. On March 19, 2015, the Superior Court found CHCC to be in contempt of the court's orders issued on June 2, 2014 and January 20, 2015 and ordered sanctions subject to conditions stipulated in the order. The court further orders CHCC to pay its monthly billings to CUC, subject to any negotiation between the parties. On April 10, 2015, CHCC filed an amended motion to dismiss the case or grant judgement to CHCC.

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

(9) Going Concern, Continued

- Continue evaluation of the fee structure to determine if changes/adjustments are necessary;
- Continued evaluation of the billing system and collection processes to determine changes to be made;
- Enhancement of the personnel structure and invest in staff and expansion;
- Implementation of the business and strategic plan; and
- Develop plans for alternative revenue generating methods.

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

(10) Subsequent Events

On December 23, 2015, CHCC and CUC entered into a net metering intergovernmental cooperative agreement (NMICA). As stated in the agreement, the NMICA establishes the relationship between the parties regarding the net metering and planning and development of photovoltaic renewable energy for CHCC in accordance with Public Law 18-75.

On January 24, 2016, MPLT renewed CHCC's line of credit totaling $4.58 million and approved a drawdown of $3 million with interest at 5% per annum and due on March 12, 2017.