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

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

YEAR ENDED SEPTEMBER 30, 2016

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, 2016 AND 2015

Deloitte & Touche LLC
Isa Drive, Capitol Hill
P.O. Box 500308
Saipan, MP 96950-0308
CNMI

Tel: (670) 322-7337/8
Fax: (670) 322-7340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited and 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, 2016 and 2015, respectively, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the 2016 financial statements.

Deloitte.

Basis for Disclaimer of Opinion on the 2015 Financial Statements

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 year ended September 30, 2015. In addition, capital asset additions totaling $471,044 were expensed during the year ended September 30, 2015. 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 as CHCC could not substantiate general ledger balances due to inadequacies in accounting records.

Basis for Qualified Opinion on the 2016 Financial Statements

Management has not adopted 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, 2016. 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 year ended September 30, 2016. In addition, we were unable to determine the propriety of inventories, revenues and expenses as of and for the year ended September 30, 2016 as CHCC could not substantiate general ledger balances due to inadequacies in accounting records.

Disclaimer of Opinion on the 2015 Financial Statements

Because of the significance of the matters discussed in the "Basis for Disclaimer of Opinion on the 2015 Financial Statements" paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying 2015 financial statements.

Qualified Opinion on the 2016 Financial Statements

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion on the 2016 Financial Statements" paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth Healthcare Corporation as of September 30, 2016, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte.

Emphasis-of-Matters

Correction of Errors

As discussed in note 13 to the financial statements, certain account balances have been restated for the correction of errors.

Going Concern

The accompanying financial statements have been prepared assuming that CHCC will continue as a going concern. As discussed in note 12 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 12. 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 these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of, and 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 July 26, 2018 on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CHCC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CHCC's internal control over financial reporting and compliance.

Deloitte & Touche LLC

July 26, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2016

INTRODUCTION

Public Law 16-51 established a public corporation for healthcare and related public health services known as the Commonwealth Healthcare Corporation (CHCC). The mandate created 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".

Five 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. Moreover, it should be noted that greater than 50% of CNMI population does not have health insurance. This poses a major challenge for CHCC as uncompensated care costs amount to millions of dollars. Despite these challenges, CHCC strives to fulfill its mission and goals and to work with CNMI officials in order to obtain more support for healthcare needs in 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 2016. 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 2015 and 2014 comparative information have been included where appropriate.

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Financial Highlights

- CHCC's 2015 financial statements and beginning net position have been restated to reflect proper revenue recognition and other accounting issues noted in the prior years' audits. This resulted in significant changes in financial highlights as compared to CHCC's published 2014 MD&A.

- CHCC's net position decreased from $12,178,904 in fiscal year 2015 to $6,655,507 in fiscal year 2016 due to increases in operating expenses. The increase in operating expenses is primarily due to higher patient census. In 2014 CHCC had over 74,000 billings and 84,000 in 2016. More direct patients increased certain expenses such as payroll and supplies. However, this does not always translate to higher revenues as uncompensated care increased from $9 million in 2015 to $13.5 million in 2016.

- CHCC'S net position decreased from $14,913,080 in fiscal year 2014 to $12,178,904 in fiscal year 2015 due to operating expenses exceeding net operating revenues. The impact was reduced by the net nonoperating income.

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS, CONTINUED

Financial Highlights, Continued

- CHCC's recorded capital assets were restated to reflect additions and depreciation.

- CHCC's total assets increased from $48,017,875 in fiscal year 2015 to $49,978,344 in fiscal year 2016 and from $45,952,289 in fiscal year 2014 to $48,017,875 in fiscal year 2015. 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 $35,838,971 in fiscal year 2015 to $43,322,837 in fiscal year 2016 and from $31,039,209 in fiscal year 2014 to $35,838,971 in fiscal year 2015.

- CHCC's operating revenues decreased from $38,026,551 in fiscal year 2015 to $37,831,853 in fiscal year 2016 and from $38,508,072 in fiscal year 2014 to $38,026,551 in fiscal year 2015.

- CHCC's operating expenses increased from $42,988,340 in fiscal year 2015 to $46,967,281 in fiscal year 2016 and from $42,592,687 in fiscal year 2014 to $42,988,340 in fiscal year 2015.

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	2016	2015 (As Restated)	2014 (As Restated)
Current assets	$ 14,866,927	$ 11,765,056	$ 7,841,289
Capital assets, net of accumulated depreciation	35,111,417	36,252,819	38,111,000
Total assets	$ 49,978,344	$ 48,017,875	$ 45,952,289
Liabilities and Net Position			
Liabilities:			
Current liabilities	$ 41,646,793	$ 33,905,196	$ 28,636,092
Noncurrent portion of compensated absences	1,676,044	1,933,775	2,403,117
Total liabilities	43,322,837	35,838,971	31,039,209
Net position:			
Net investment in capital assets	35,111,417	36,252,819	38,111,000
Restricted	2,729,734	2,527,174	779,237
Unrestricted	(31,185,644)	(26,601,089)	(23,977,157)
Total net position	6,655,507	12,178,904	14,913,080
Total liabilities and net position	$ 49,978,344	$ 48,017,875	$ 45,952,289

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

Statements of Revenues, Expenses and Changes in Net Position

	2016	2015 (As Restated)	2014 (As Restated)
Operating revenues	$ 37,831,853	$ 38,026,551	$ 38,508,072
Operating expenses	46,967,281	42,988,340	42,592,687
Operating loss	(9,135,428)	(4,961,789)	(4,084,615)
Nonoperating income (expense), net	3,612,031	2,227,613	1,792,567
Loss before capital contributions	(5,523,397)	(2,734,176)	(2,292,048)
Capital contributions	-	-	39,916,090
Change in net position	(5,523,397)	(2,734,176)	37,624,042
Net position at beginning of year	12,178,904	14,913,080	(22,710,962)
Net position at end of year	$ 6,655,507	$ 12,178,904	$ 14,913,080

Statements of Cash Flows

	2016	2015 (As Restated)	2014 (As Restated)
Cash flows from operating activities	$ (207,127)	$ 164,047	$ (4,260,133)
Cash flows from financing activities	2,409,002	1,995,791	1,792,567
Net increase (decrease) in cash	2,201,875	2,159,838	(2,467,566)
Cash at beginning of year	3,608,305	1,448,467	3,916,033
Cash at end of year	$ 5,810,180	$ 3,608,305	$ 1,448,467

CHCC'S ANALYSIS AND FINANCIAL CONDITION

At the end of fiscal years 2016, 2015 and 2014, CHCC had total assets of $49,978,344, $48,017,875 and $45,952,289, 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 capital assets, net of accumulated depreciation.

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

CHCC has notes payable of $2,850,000 due to the Marianas Public Land Trust (MPLT) resulting from an available line of credit from MPLT to CHCC. See note 5 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 low-level funding amounts appropriated to CHCC since its inception in October 2011, CHCC has progressed tremendously. Despite being the only hospital in the CNMI and despite a large charity care population, government appropriations to CHCC have been inadequate. This is illustrated in the operating losses experienced by the CNMI's lone hospital. Considering the large uninsured population in the CNMI, government support was direly needed in fiscal year 2016.

CHCC'S ANALYSIS AND FINANCIAL CONDITION, CONTINUED

Despite these conditions, CHCC has made tremendous strides to significantly increase operating revenues in recent years as compared to prior fiscal years. Expenses remain constant and consistent for CHCC with over 90% of all operational expenses going to personnel, medical supplies, pharmaceutical supplies, and other required services such as custodial and repair and maintenance services. As can be seen from this, CHCC cannot adopt a cost-reduction business model as reducing staff and medical supplies would be detrimental to hospital operations. Thus, CHCC's focus is improving revenue generation, seeking out new funding streams, and continuing to work with the legislature to obtain direly needed appropriations. CHCC staff are highly committed and focused on striving to provide the highest level of quality for the CNMI's only healthcare system.

Capital Assets

At September 30, 2016, 2015 and 2014, CHCC had $35,111,417, $36,252,819 and $38,111,000, respectively, net investment in capital assets. See notes 2 and 4 to the financial statements for more detailed information on CHCC's capital assets.

CHALLENGES AND ACCOMPLISHMENTS

Five years after its establishment, the insufficient financial support of CHCC is essentially still a lingering factor in the agency's struggles and challenges. This continued throughout fiscal year 2016. CHCC is considered a "safety net" hospital, providing care for the indigent and uninsured population of the CNMI. The Emergency Treatment and Active Labor Act (EMTALA) mandates that CHCC see and treat all those with no ability to pay. Uninsured patients are pervasive in the CNMI and will be always be a going concern unless appropriations are provided or businesses are mandated to provide basic insurance coverage to the employees. Moreover, the fact that CHCC does not receive a local match portion of Medicaid payments significantly impacts the CNMI's lone hospital's operations. 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; all this while incurring significant uncompensated care costs.

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; CHCC continues to work and focus on CMS requirements to ensure continued certification. Extensions on certification were awarded in FY 2016.

c. The End Stage Renal Disease (ESRD) program (Dialysis) continues to operate in compliance with CMS standards compared to prior years where conditions of participation were identified.

d. The CHCC Grants Management Office (GMO) opened its doors this fiscal year to secure the Successor of Interest Agreements and to develop and implement policies that are in compliance with applicable Federal, State, and local laws, regulations, and contract stipulations.

e. 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;

CHALLENGES AND ACCOMPLISHMENTS, CONTINUED

f. Hospital-Public Health collaboration continues and is being strengthened with the goal of prevention and awareness; and

g. CHCC credentialed and privileged 14 new members to its medical staff in FY 2016 thereby expanding services in psychiatry, emergency medicine, pediatrics, general surgery, dentistry, and OB/Gyn.

ECONOMIC OUTLOOK

Compared to its inception in October 2011, CHCC has made tremendous improvements throughout the health system in Saipan, Rota and Tinian and priority is ensuring services are always available and accessible. Despite funding shortfalls and lack of adequate appropriations, CHCC continues to operate today and is realizing improvements and efficiencies. CHCC has overcome significant challenges and is committed to continue pursuing results as CHCC is the only health system in the CNMI.

CHCC continuously evaluates its service delivery methods and strives to continuously improve despite facing major challenges. Building capacity is an overarching goal as well and this requires investing in technology, information systems, and infrastructure.

Improving accountability and compliance is also vital and a focus. CHCC is now able to produce financial statements and financial system transactions are aligned to accounting principles. Audit issues are more understood as well and obtaining clean audits with unmodified opinions is another goal of CHCC.

Improved financial performance is always a goal of CHCC and this can be seen in the improvement in revenue generation compared to prior years. CHCC expects impacts in this regard to be seen more so in FY 2017 and beyond.

CHCC continues to strive for improved staffing development and reorganization, including providing proper tools to assist in the improvements. The contract worker (CW) permit issues will always be a concern given a large portion of health professionals at CHCC are on the CW visa program.

With improvements in IT and Accounting, CHCC aims to financially improve and be able to provide and expand its services, including removing a significant proportion of audit findings by the end of FY 2017 and even more so in FY 2018.

The Management's Discussion and Analysis for the year ended September 30, 2015 is set forth in CHCC's report on the audit of financial statements, which is dated March 30, 2017. That Discussion and Analysis explains the major factors impacting the 2015 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, 2016 and 2015

ASSETS	2016	2015 (As Restated)
Current assets:		
Cash	$ 5,810,180	$ 3,608,305
Patient accounts receivable, net of estimated uncollectibles of $8,099,753 in 2016 and $5,789,521 in 2015	6,237,151	4,962,873
Other receivables	311,264	207,524
Advances	475,839	793,360
Due from CNMI	249,538	873,054
Inventories	1,782,955	1,319,940
Total current assets	14,866,927	11,765,056
Depreciable capital assets, net of accumulated depreciation	35,111,417	36,252,819
Total assets	$ 49,978,344	$ 48,017,875
LIABILITIES AND NET POSITION		
Current liabilities:		
Notes payable to a related party	$ 2,850,000	$ 3,000,000
Current portion of compensated absences	1,264,384	996,187
Accounts payable	5,494,627	4,036,508
Accrued payroll	454,326	184,580
Accrued taxes and other liabilities	9,706,479	5,584,692
Due to related parties	21,876,977	19,938,592
Unearned revenue	-	164,637
Total current liabilities	41,646,793	33,905,196
Compensated absences, net of current portion	1,676,044	1,933,775
Total liabilities	43,322,837	35,838,971
Commitments and contingencies		
Net position:		
Net investment in capital assets	35,111,417	36,252,819
Restricted	2,729,734	2,527,174
Unrestricted	(31,185,644)	(26,601,089)
Total net position	6,655,507	12,178,904
	$ 49,978,344	$ 48,017,875

See accompanying notes to financial statements.

COMMONWEALTH HEALTHCARE CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2016 and 2015

	2016	2015 (As Restated)
Operating revenues:		
Net patient service revenue, net of contractual adjustments and provision for bad debts of $42,247,621 in 2016 and $36,490,137 in 2015	$ 36,598,880	$ 36,914,865
Other operating revenues:		
Dental services	200,955	98,510
Cafeteria food sales	154,503	124,978
Medical record services	140,740	120,968
Other hospital services	324,008	236,997
Contributions	695	11,960
Other revenue	412,072	518,273
Total operating revenues, net	37,831,853	38,026,551
Operating expenses:		
Wages and salaries	23,545,905	22,645,771
Supplies	6,108,628	5,651,873
Utilities	4,262,361	4,679,053
Employee benefits	3,591,170	2,980,978
Penalties and interest	2,557,625	-
Depreciation	2,194,431	2,090,003
Professional services	1,349,213	2,048,289
Repair and maintenance	1,036,348	705,451
Cleaning services	534,193	563,449
Food items	283,217	268,296
Travel	278,867	148,476
Fuel and lubricants	239,686	181,409
Communications	188,773	204,302
Building improvements	166,059	53,556
Recruitment/repatriation	121,888	140,691
Rentals	68,223	54,642
Printing and photocopying	65,161	56,593
Licenses and fees	60,168	39,166
Freight and handling	45,550	50,438
Furniture and fixtures	12,461	16,378
Machinery and equipment	5,276	16,290
Office equipment	3,521	-
Miscellaneous	248,557	393,236
Total operating expenses	46,967,281	42,988,340
Operating loss	(9,135,428)	(4,961,789)
Nonoperating income (expense):		
Federal grant contributions	17,287,933	13,102,042
CNMI appropriation	3,133,696	1,208,675
Interest expense	(144,637)	(192,658)
Federal grant expenses	(16,664,961)	(11,890,446)
Total nonoperating income (expense), net	3,612,031	2,227,613
Change in net position	(5,523,397)	(2,734,176)
Net position at beginning of year	12,178,904	14,913,080
Net position at end of year	$ 6,655,507	$ 12,178,904

See accompanying notes to financial statements.

COMMONWEALTH HEALTHCARE CORPORATION

Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015 (As Restated)
Cash flows from operating activities:		
Cash received from customers	$ 36,912,714	$ 34,266,081
Cash payments to suppliers for goods and services	(10,262,978)	(8,485,395)
Cash payments to employees for services	(26,856,863)	(25,616,639)
Net cash (used for) provided by operating activities	(207,127)	164,047
Cash flows from noncapital financing activities:		
Cash received from the CNMI	3,133,696	1,208,675
Federal and other contributions received	14,309,714	13,102,042
Payments made under federal programs	(13,686,742)	(11,890,446)
Proceeds from notes payable	3,000,000	3,000,000
Payment of notes payable	(3,150,000)	(3,000,000)
Interest paid on notes payable	(144,637)	(192,658)
Net cash provided by noncapital financing activities	3,462,031	2,227,613
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(1,053,029)	(231,822)
Net cash provided by capital and related financing activities	(1,053,029)	(231,822)
Net increase in cash	2,201,875	2,159,838
Cash at beginning of year	3,608,305	1,448,467
Cash at end of year	$ 5,810,180	$ 3,608,305
Reconciliation of operating loss to net cash (used for) provided by operating activities:		
Operating loss	$ (9,135,428)	$ (4,961,789)
Adjustments to reconcile operating loss to net cash (used for) provided by operating activities:		
Bad debts	1,998,026	-
Depreciation	2,194,431	2,090,003
(Increase) decrease in assets:		
Receivables:		
General	(3,272,304)	(3,528,832)
Other	(103,740)	(66,354)
Advances	317,521	(430,407)
Due from CNMI	623,516	162,857
Inventories	(463,015)	28,086
Increase (decrease) in liabilities:		
Compensated absences	10,466	526,845
Accounts payable	1,458,119	290,605
Accrued payroll	269,746	(516,735)
Accrued taxes and other liabilities	4,121,787	2,529,283
Due to related parties	1,938,385	4,368,626
Unearned revenue	(164,637)	(328,141)
Net cash (used for) provided by operating activities	$ (207,127)	$ 164,047

Supplemental disclosure of noncash transactions:

During the years ended September 30, 2016 and 2015, respectively, CHCC recorded the following noncash transactions:

Noncash increase in federal grant expenditures	$ 2,978,219	$ -
Noncash increase in federal grant revenue	(2,978,219)	-
	$ -	$ -

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, which was amended by CNMI Public Law 19-78. CHCC is governed by a five-member Board of Trustees appointed by the Governor of the CNMI with the advice and consent of the Senate.

(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.

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, 2016 and 2015, total cash was $5,810,180 and $3,608,305, respectively, and the corresponding bank balances were $5,942,720 and $3,901,161, 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.

(2) Summary of Significant Accounting Policies, Continued

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.

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. CHCC has adopted a policy to capitalize items with costs in excess of $5,000.

Unearned Revenue

Unearned revenue is recognized when cash, receivables or other assets are recorded prior to being earned. Unearned revenue of $-0- and $164,637 as of September 30, 2016 and 2015, 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).

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

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

On March 11, 2013, Public Law 18-02 was enacted to amend Public Law 17-82 to clarify those provisions necessary to expedite the refunds and to prevent any further frustration of the process. Included in the public law is the amendment of Section 203(a) of Title 1, Division 8, Part 3, which states that the government obligation to withhold and remit the employee's 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 $250,593, $204,315 and $183,094 to the DB Plan during the years ended September 30, 2016, 2015 and 2014, respectively.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. 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, 2016, 2015 and 2014 were $466,425, $404,298 and $402,996, 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:

- Net investment in capital assets: capital assets, net of accumulated depreciation.

(2) Summary of Significant Accounting Policies, Continued

Net Position, Continued

- 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 $2,729,734 and $2,527,174 is recorded at September 30, 2016 and 2015, 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

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a liability. Compensated absences are recorded as a long-term liability in the statements of net position with amounts to be paid during the next fiscal year reported as current. CHCC recorded a liability of $2,940,428 and $2,929,962 as of September 30, 2016 and 2015, respectively.

Annual leave accumulates at the rate of thirteen working days for each year of service for up to three years of service, nineteen and a half working days for each year of service for three to six years of service, and twenty-six working days for each year of service for more than six years of service. Accrued annual leave is limited to forty-five working days, with any amounts over forty-five days transferred to sick leave.

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 and provision for bad debts of $42,247,621 and $36,490,137 for the years ended September 30, 2016 and 2015, respectively.

GASB Statement No. 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* and in November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of* GASB *Statement No. 68,* which revised and established new financial reporting requirements for most governments that provided their employees with pension benefits through plans that are administered through trusts. The provisions in Statements No. 68 and No. 71 were effective for fiscal years beginning after June 15, 2014. Management acknowledges the requirement to recognize within the financial statements net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense. However, CHCC did not record the effects of GASB Statements No. 68 and No. 71 as of and for the year ended September 30, 2016 as the amounts are not available.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2016, CHCC implemented the following pronouncements:

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

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

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. Those provisions were based on the Investment Company Act of 1940, Rule 2a7. Rule 2a7 contains the Securities and Exchange Commission's regulations that apply to money market funds and were significantly amended in 2014. The implementation of this statement did not have a material effect on the accompanying 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, 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. 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

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 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.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 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.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 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 March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 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

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) Patient Accounts Receivable

CHCC grants credit without collateral to its patients, many of whom are CNMI residents and are insured under third-party payor agreements. Patient accounts receivable at September 30, 2016 and 2015, consist of:

	2016	2015
Third party insurers	$ 12,068,309	$ 9,813,032
Patient guarantors	1,664,019	939,362
Medicare	604,576	-
	14,336,904	10,752,394
Less allowance for uncollectible accounts	(8,099,753)	(5,789,521)
	$ 6,237,151	$ 4,962,873

(4) Capital Assets

Capital asset balances consist of the following as of September 30, 2016 and 2015:

	Estimated Useful Lives	Balance October 1, 2015 (As Restated)	Increases	Decreases	Balance September 30, 2016 (As Restated)
Capital assets being depreciated:					
Building	15 - 50 years	$ 36,625,365	$ -	$ -	$ 36,625,365
Machinery and equipment	5 - 10 years	2,439,142	870,251	-	3,309,393
Computer software	5 - 10 years	1,255,290	-	-	1,255,290
Vehicles	5 - 10 years	32,996	182,778	-	215,774
		40,352,793	1,053,029	-	41,405,822
Less accumulated depreciation		(4,099,974)	(2,194,431)	-	(6,294,405)
Total capital assets, net		$ 36,252,819	$ (1,141,402)	$ -	$ 35,111,417

	Estimated Useful Lives	Balance October 1, 2014 (As Restated)	Increases	Decreases	Balance September 30, 2015 (As Restated)
Capital assets being depreciated:					
Building	15 - 50 years	$ 36,625,365	$ -	$ -	$ 36,625,365
Machinery and equipment	5 - 10 years	2,240,316	198,826	-	2,439,142
Computer software	5 - 10 years	1,255,290	-	-	1,255,290
Vehicles	5 - 10 years	-	32,996	-	32,996
		40,120,971	231,822	-	40,352,793
Less accumulated depreciation		(2,009,971)	(2,090,003)	-	(4,099,974)
Total capital assets, net		$ 38,111,000	$ (1,858,181)	$ -	$ 36,252,819

(4) Capital Assets, Continued

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.

CHCC management asserts that construction in progress funded by the CNMI be transferred to CHCC upon completion of the project. Accordingly, CHCC restated construction in progress (see note 13).

(5) Notes Payable to a Related Party

	2016	2015
Note payable to the Marianas Public Land Trust (MPLT), bearing interest at 5% per annum, due on March 12, 2017. The note is collateralized by future distributable income in fiscal year 2017 and CHCC's real properties for CHCC's operational and bridge capital pursuant to CNMI Public Law No. 17-76.	$ 2,850,000	$ -
Note payable to 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. The note was paid in full on June 10, 2016.	-	3,000,000
	$ 2,850,000	$ 3,000,000

Loan proceeds extinguished a prior loan obtained for operations.

(6) Long-Term Liability

Changes in long-term liability for the years ended September 30, 2016 and 2015, are as follows:

	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Compensated absences	$ 2,929,962	$ 2,197,781	$ (2,187,315)	$ 2,940,428	$ 1,264,384

	Balance October 1, 2014	Additions	Reductions	Balance September 30, 2015	Due Within One Year
Compensated absences	$ 2,403,117	$ 2,060,740	$ (1,533,895)	$ 2,929,962	$ 996,187

(7) 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 three years.

(8) Related Party Transactions

Total related party transactions for the years ended September 30, 2016 and 2015, and the related receivable and payable balances, are as follows:

	2016			
	Revenues and Other Contributions	Expenses	Payables	Receivables
Commonwealth Utilities Corporation	$ -	$ 4,262,361	$ 16,907,059	$ -
CNMI Government	3,133,696	199,224	4,969,918	249,538
	$ 3,133,696	$ 4,461,585	$ 21,876,977	$ 249,538

	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	873,054
	$ 1,208,675	$ 5,077,735	$ 19,938,592	$ 873,054

(8) Related Party Transactions, Continued

Notes payable to MPLT aggregate $2,850,000 and $3,000,000 at September 30, 2016 and 2015, respectively. Related interest expense for the years ended September 30, 2016 and 2015 amounted to $144,637 and $192,658, respectively.

CHCC recorded contributions from the CNMI of $3,133,696 and $1,208,675 during the years ended September 30, 2016 and 2015, respectively. Due from CNMI of $249,538 and $873,054 relates to unreconciled amounts at September 30, 2016 and 2015, respectively. Due to the CNMI relates to the 1% Public Auditor fee $1,745,597 and $1,546,373 at September 30, 2016 and 2015, respectively, and CHCC's contribution to the DB Plan of $3,224,321 and $3,223,617, respectively (see note 11).

(9) Patient Service Revenue

CHCC has agreements with third-party payers that provide for payments to CHCC at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

- Medicare - CHCC is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by CHCC and audits thereof by the Medicare administrative contractor. Professional services are reimbursed based on a fee schedule. The estimated amounts due to or from CHCC are reviewed and adjusted annually based on the status of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to patient service revenue in the year examination is substantially completed.

- Medicaid - CHCC is reimbursed by the CNMI Medicaid Program for agreed monthly capitation payments. Based on the CNMI State Plan, CHCC is paid only the Federal portion of the certified public expenditures. The unreimbursed amounts are recorded as charity care.

Gross patient revenue from the Medicare and Medicaid programs accounted for approximately 23 percent and 29 percent, respectively, of CHCC's gross patient revenue for the year ended September 30, 2016, and 28 percent and 30 percent, respectively, of CHCC's gross patient revenue for the year ended September 30, 2015. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

CHCC also has entered into payment agreements with certain commercial insurance carriers. Commercial insurance companies reimbursed CHCC at negotiated charges.

Patient service revenues for the years ended September 30, 2016 and 2015 are as follows:

(9) Patient Service Revenue, Continued

	2016	2015
Services provided to Medicaid patients	$ 23,006,733	$ 21,996,615
Services provided to Medicare patients	18,144,312	20,793,852
Services provided to third-party payer	17,941,997	15,572,522
Services provided to self-pay and other patients	19,753,459	15,042,013
	78,846,501	73,405,002
Less contractual adjustments and provisions for uncollectible accounts	(42,247,621)	(36,490,137)
Net patient service revenue	$ 36,598,880	$ 36,914,865

(10) 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, 2016 and 2015 is $79,500 and $80,313, respectively. Minimum future lease income is $13,250 for the year ending September 30, 2017.

CHCC engages in various contracts to sustain hospital operations. Future contract commitments for the year ended September 30, 2016 has not been determined.

(11) Contingencies

At September 30, 2016 and 2015, CHCC recorded outstanding Medicare liabilities of $3,909,463 and $1,641,933, respectively. Of these amounts, $2,557,625 and $-0- relate to interest and penalties for late submission and payment of 2016 and prior years' Medicare withholdings at September 30, 2016 and 2015, respectively, based on payments made subsequent to September 30, 2016. The related interest and penalties for late submission and payment of Medicare withholdings for the remaining $1,351,838 and $1,641,933 have not been determined and accordingly, is not recorded at September 30, 2016 and 2015, respectively. CHCC management does not consider the additional 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 $2,441,316 have been set forth in CHCC's Single Audit Report for the year ended September 30, 2016. 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.

(11) 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, 2016 and 2015, CHCC recorded outstanding and deficient employer contributions due to the CNMI of $3,224,321 and $3,223,617, respectively. The amount confirmed by the CNMI was $6,842,972 (inclusive of interest totaling $174,483) resulting in a variance of $3,618,651 and $3,619,355 at September 30, 2016 and 2015, respectively. An assessment of the outstanding and deficient employer contributions has not been determined and, accordingly, employer contributions of $3,618,651 and $3,619,355 are not reflected in the accompanying financial statements at September 30, 2016 and 2015, respectively.

CHCC records expenditures for sick leave when the leave is actually taken. Sick leave is compensated absence during work hours arising from employee illness or injury. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. CHCC could not determine the amount of accumulated unused sick leave as of September 30, 2016 and 2015.

(12) Going Concern

CHCC incurred operating losses of $9,135,428 and $4,961,789 and (negative) positive cash flows from operations of $(207,127) and $164,047 for the years ended September 30, 2016 and 2015, respectively. 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.

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 CNMI Public Law 18-75. Further, the agreement states that CUC should not apply penalty or interest for utility services and should recalculate, adjust and reverse any penalties, late fees and interest amounts owed to CUC by CHCC. According, as of September 30, 2016, total penalties and late charges assessed by CUC of $3,086,326 was reversed.

(12) Going Concern, Continued

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

- 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.

(13) Restatements

Subsequent to the issuance of CHCC's 2015 financial statements, management determined that certain September 30, 2015 account balances were misstated. In addition, management determined that non-depreciable and depreciable capital assets were misstated due to non-recording of additions and related depreciation expense and correction of prior year errors. As a result of this determination, the following September 30, 2015 accounts have been restated from amounts previously reported:

	As Previously Reported	As Restated
Cash	$ 3,016,207	$ 3,608,305
Receivables - general	$ 67,755,748	$ 10,959,918
Allowance for doubtful accounts	$ 24,141,067	$ 5,789,521
Inventories	$ 2,328,429	$ 1,319,940
Due from CNMI	$ 1,874,364	$ 873,054
Non-depreciable capital assets	$ 2,156,816	$ -
Depreciable capital assets, net of accumulated depreciation	$ 37,759,274	$ 36,252,819
Federal grant expenses	$ 11,978,609	$ 11,890,446
Machinery and equipment expense	$ 126,953	$ 16,290
Building improvements expense	$ 70,054	$ 53,556
Vehicles	$ 16,498	$ -
Accounts payable	$ 5,643,107	$ 4,036,508
Accrued payroll	$ 421,593	$ 184,580
Accrued taxes and other liabilities	$ 5,581,592	$ 5,584,692
Compensated absences	$ -	$ 2,929,962
Hospital services revenue	$ 58,666,380	$ 37,496,318
Wages and salaries expense	$ 22,118,926	$ 22,645,771
Depreciation expense	$ -	$ 2,090,003

(14) Subsequent Events

On December 19, 2016, Public Law 19-75 was enacted which authorized the CNMI to transfer $7,000,000 to CHCC to pay outstanding balances owed by CHCC to CUC. On December 29, 2016, CHCC received the $7,000,000 from the CNMI and transferred the funds to CUC.

On March 9, 2017, MPLT renewed CHCC's line of credit totaling $3,000,000 with interest at 5% per annum and due on June 12, 2017.

On June 21, 2017, MPLT renewed CHCC's line of credit totaling $2,850,000 with interest at 5% per annum and due on June 12, 2018.