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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 THE UNIFORM GUIDANCE

YEAR ENDED SEPTEMBER 30, 2017

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited 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, 2017 and 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Basis for Qualified Opinion

Management has not adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. As discussed in note 2 to the financial statements, CHCC has not recorded pension expense and related net pension asset or liability, deferred inflows of resources and deferred outflows of resources as of and for the years ended September 30, 2017 and 2016. GASB Statement No. 68 requires an employer to recognize its proportionate share of the collective pension expense, as well as the net pension asset or liability, deferred outflows of resources and deferred inflows of resources. The amount by which this departure would affect the assets and deferred outflows of resources, liabilities and deferred inflows of resources, net position and expenses of CHCC has not been determined.

CHCC did not conduct a physical inventory of its capital assets during the years ended September 30, 2017 and 2016. In addition, we were unable to determine the propriety of inventories and related expenses as of and for the years ended September 30, 2017 and 2016 as CHCC could not substantiate general ledger balances due to inadequacies in accounting records.

Qualified Opinion

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth Healthcare Corporation as of September 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 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 this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2019 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

October 25, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2017

INTRODUCTION

Public Law (PL) 16-51, as amended by PL 19-78, 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".

Six years after the establishment of CHCC, much progress has been made. Services continue to be expanded with plans for Oncology and ENT services, as well as plans to extend services through telehealth. CHCC, however, continues to face major challenges in the form of uncompensated care, the lack of matching local funds for Medicaid, lack of appropriations and unfunded mandates such as the inter-island medical referral program. Healthcare in the Commonwealth of the Northern Mariana Islands (CNMI) is also greatly impacted by a largely uninsured and underinsured population. Despite these significant challenges facing the only hospital in the CNMI, CHCC continues to strive for excellence in providing care and with its financial situation, address critical healthcare needs of the CNMI.

The following Management's Discussion & Analysis (MD&A) of CHCC's activities and financial performance will serve as an introduction and overview of the audited financial statements of CHCC for fiscal year 2017. The information contained in the MD&A has been prepared by management and should be considered in conjunction with the financial statements and notes which follow this section. Fiscal years 2016 and 2015 comparative information have been included where appropriate.

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Financial Highlights

- CHCC's net position increased from $6,655,507 in fiscal year 2016 to $11,386,568 in fiscal year 2017 due to increases in operating revenues and CNMI appropriations and a slight reduction in expenses. The increase in operating revenues is the result of newly established expectations, better efficiency and the addition of needed employees.

- CHCC received a $7,000,000 appropriation from the CNMI government, which has been restricted and earmarked for past due utility payments.

- CHCC's total assets decreased slightly from $49,978,344 in fiscal year 2016 to $49,255,276 in fiscal year 2017 and increased from $48,017,875 in fiscal year 2015 to $49,978,344 in fiscal year 2016. Total assets are composed of cash, receivables, advances, due from CNMI, inventories and depreciable capital assets, net of accumulated depreciation.

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OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS, CONTINUED

Financial Highlights, Continued

- CHCC's total liabilities decreased from $43,322,837 in fiscal year 2016 to $37,868,708 in fiscal year 2017 and increased from $35,838,971 in fiscal year 2015 to $43,322,837 in fiscal year 2016.

- CHCC's operating revenues increased from $37,831,853 in fiscal year 2016 to $43,571,827 in fiscal year 2017 and decreased slightly from $38,026,551 in fiscal year 2015 to $37,831,853 in fiscal year 2016.

- CHCC's operating expenses increased from $46,967,281 in fiscal year 2016 to $49,343,813 in fiscal year 2017 and from $42,988,340 in fiscal year 2015 to $46,967,281 in fiscal year 2016.

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	**2017**	**2016**	**2015 (As Restated)**
Current assets	$ 15,720,390	$ 14,866,927	$ 11,765,056
Depreciable capital assets, net of accumulated depreciation	33,534,886	35,111,417	36,252,819
Total assets	$ 49,255,276	$ 49,978,344	$ 48,017,875
Liabilities and Net Position			
Liabilities:			
Current liabilities	$ 35,978,352	$ 41,646,793	$ 33,905,196
Noncurrent portion of compensated absences	1,890,356	1,676,044	1,933,775
Total liabilities	37,868,708	43,322,837	35,838,971
Net position:			
Net investment in capital assets	33,534,886	35,111,417	36,252,819
Restricted	3,065,351	2,729,734	2,527,174
Unrestricted	(25,213,669)	(31,185,644)	(26,601,089)
Total net position	11,386,568	6,655,507	12,178,904
Total liabilities and net position	$ 49,255,276	$ 49,978,344	$ 48,017,875

Statements of Revenues, Expenses and Changes in Net Position

	2017	**2016**	**2015 (As Restated)**
Operating revenues	$ 43,571,827	$ 37,831,853	$ 38,026,551
Operating expenses	49,343,813	46,967,281	42,988,340
Operating loss	(5,771,986)	(9,135,428)	(4,961,789)
Nonoperating income (expense), net	10,503,047	3,612,031	2,227,613
Change in net position	4,731,061	(5,523,397)	(2,734,176)
Net position at beginning of year	6,655,507	12,178,904	14,913,080
Net position at end of year	$ 11,386,568	$ 6,655,507	$ 12,178,904

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS, CONTINUED

Statements of Cash Flows

	2017	2016	2015 (As Restated)
Cash flows from operating activities	$ (9,988,206)	$ (207,127)	$ 164,047
Cash flows from noncapital financing activities	10,503,047	3,462,031	2,227,613
Cash flows from capital and related financing activities	(784,859)	(1,053,029)	(231,822)
Net (decrease) increase in cash	(270,018)	2,201,875	2,159,838
Cash at beginning of year	5,810,180	3,608,305	1,448,467
Cash at end of year	$ 5,540,162	$ 5,810,180	$ 3,608,305

CHCC'S ANALYSIS AND FINANCIAL CONDITION

At the end of fiscal years 2017, 2016 and 2015, CHCC had total assets of $49,255,276, $49,978,344 and $48,017,875, respectively. These are comprised of cash, receivables, net of allowance for doubtful accounts, advances, due from CNMI, inventories of medical and pharmaceutical supplies and depreciable 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, the lack of local government Medicaid matching funds, and huge uncompensated care losses, CHCC continues to progress. Despite being the only hospital in the CNMI, despite a large charity care population and despite the fact that about half the population is uninsured or underinsured, government appropriations to CHCC have been grossly 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 2017 and prior.

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. Moreover, the community demands and needs the availability of expanded services, which CHCC is striving to achieve. 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.

CHCC'S ANALYSIS AND FINANCIAL CONDITION, CONTINUED

Capital Assets

At September 30, 2017, 2016 and 2015, CHCC had $33,534,886, $35,111,417 and $36,252,819, 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

Six 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 2017. 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. Access and availability of 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. Plans of Correction were accepted by the Centers for Medicare & Medicaid Services (CMS) for the findings on seven hospital Conditions of Participation; CHCC continues to work and focus on CMS requirements to ensure continued certification. Extensions on certification were awarded through FY 2017;

c. The End Stage Renal Disease (ESRD) program (Dialysis) continues to operate in compliance with CMS standards;

d. The CHCC Grants Management Office (GMO) enforces policies that ensures CHCC is 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 Super Typhoons Yutu and 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;

f. Hospital-Public Health collaboration and integration continues and are being strengthened with the goal of population health; and

g. CHCC credentialed and privileged several new members to its medical staff in FY 2017 thereby expanding services in psychiatry, emergency medicine, pediatrics, general surgery, dentistry and obstetrics/gynecology.

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, lack of adequate appropriations, tremendous uncompensated care costs, lack of a local government Medicaid match and the low 55% federal medical assistance percentage (FMSP) assigned to United States Territories and unfunded obligations of CHCC, such as inter-island medical referral, CHCC continues to operate today and is realizing improvements and efficiencies. CHCC has overcome significant challenges and is committed to improving positive outcomes as CHCC is the only health system in the CNMI.

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

Assuring accountability and compliance is also vital and a focus. CHCC is 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. Findings and questioned costs are being reduced thereby reducing financial exposure as a result of questioned and disallowed costs emanating from CHCC's single audit.

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. Transitioning CW workers to a more permanent status is essential for the organization.

With improvements in IT and Accounting, CHCC aims to financially improve and be able to provide and expand its services, including removing a significant portion 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, 2016 is set forth in CHCC's report on the audit of financial statements, which is dated July 26, 2018. That Discussion and Analysis explains the major factors impacting the 2016 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, 2017 and 2016

ASSETS	2017	2016
Current assets:		
Cash	$ 5,540,162	$ 5,810,180
Patient accounts receivable, net of estimated uncollectibles of $14,740,800 in 2017 and $8,099,753 in 2016	7,684,495	6,237,151
Other receivables	380,053	311,264
Advances	546,614	475,839
Due from CNMI	202,965	249,538
Inventories	1,366,101	1,782,955
Total current assets	15,720,390	14,866,927
Depreciable capital assets, net of accumulated depreciation	33,534,886	35,111,417
Total assets	$ 49,255,276	$ 49,978,344
LIABILITIES AND NET POSITION		
Current liabilities:		
Notes payable to a related party	$ 2,850,000	$ 2,850,000
Current portion of compensated absences	1,158,606	1,264,384
Accounts payable	3,890,428	5,494,627
Accrued payroll	587,757	454,326
Accrued taxes and other liabilities	7,265,967	9,706,479
Due to related parties	20,225,594	21,876,977
Total current liabilities	35,978,352	41,646,793
Compensated absences, net of current portion	1,890,356	1,676,044
Total liabilities	37,868,708	43,322,837
Commitments and contingencies		
Net position:		
Net investment in capital assets	33,534,886	35,111,417
Restricted	3,065,351	2,729,734
Unrestricted	(25,213,669)	(31,185,644)
Total net position	11,386,568	6,655,507
	$ 49,255,276	$ 49,978,344

See accompanying notes to financial statements.

COMMONWEALTH HEALTHCARE CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating revenues:		
Net patient service revenue, net of contractual adjustments and provision for bad debts of $49,464,023 in 2017 and $42,247,621 in 2016	$ 41,526,713	$ 36,598,880
Other operating revenues:		
Dental services	309,552	200,955
Cafeteria food sales	206,841	154,503
Medical record services	161,195	140,740
Other hospital services	532,390	324,008
Contributions	120,800	695
Other revenue	714,336	412,072
Total operating revenues, net	43,571,827	37,831,853
Operating expenses:		
Wages and salaries	25,772,829	23,545,905
Supplies	6,377,009	6,108,628
Employee benefits	4,837,892	3,591,170
Utilities	4,542,710	4,262,361
Depreciation	2,361,390	2,194,431
Professional services	1,817,719	1,349,213
Repair and maintenance	898,271	1,036,348
Cleaning services	628,799	534,193
Food items	362,093	283,217
Travel	336,340	278,867
Building improvements	227,053	166,059
Communications	208,003	188,773
Licenses and fees	190,852	60,168
Recruitment/repatriation	156,630	121,888
Machinery and equipment	155,222	5,276
Rentals	128,541	68,223
Fuel and lubricants	101,385	239,686
Printing and photocopying	75,359	65,161
Freight and handling	49,111	45,550
Office equipment	20,163	3,521
Furniture and fixtures	15,409	12,461
Penalties and interest	-	2,557,625
Miscellaneous	81,033	248,557
Total operating expenses	49,343,813	46,967,281
Operating loss	(5,771,986)	(9,135,428)
Nonoperating income (expense):		
Federal grant contributions	17,508,654	17,287,933
CNMI appropriation	10,034,486	3,133,696
Interest expense	(154,212)	(144,637)
Federal grant expenses	(16,885,881)	(16,664,961)
Total nonoperating income (expense), net	10,503,047	3,612,031
Change in net position	4,731,061	(5,523,397)
Net position at beginning of year	6,655,507	12,178,904
Net position at end of year	$ 11,386,568	$ 6,655,507

See accompanying notes to financial statements.

COMMONWEALTH HEALTHCARE CORPORATION

Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	$ 42,051,743	$ 36,912,714
Cash payments to suppliers for goods and services	(21,671,193)	(10,262,978)
Cash payments to employees for services	(30,368,756)	(26,856,863)
Net cash used for operating activities	(9,988,206)	(207,127)
Cash flows from noncapital financing activities:		
Cash received from the CNMI	10,034,486	3,133,696
Federal and other contributions received	14,652,281	14,309,714
Payments made under federal programs	(14,029,508)	(13,686,742)
Proceeds from notes payable	-	3,000,000
Payment of notes payable	-	(3,150,000)
Interest paid on notes payable	(154,212)	(144,637)
Net cash provided by noncapital financing activities	10,503,047	3,462,031
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(784,859)	(1,053,029)
Net cash used for capital and related financing activities	(784,859)	(1,053,029)
Net (decrease) increase in cash	(270,018)	2,201,875
Cash at beginning of year	5,810,180	3,608,305
Cash at end of year	$ 5,540,162	$ 5,810,180
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$ (5,771,986)	$ (9,135,428)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Bad debts	6,489,016	1,998,026
Depreciation	2,361,390	2,194,431
(Increase) decrease in assets:		
Receivables:		
General	(7,936,360)	(3,272,304)
Other	(68,789)	(103,740)
Advances	(70,775)	317,521
Due from CNMI	46,573	623,516
Inventories	416,854	(463,015)
Increase (decrease) in liabilities:		
Compensated absences	108,534	10,466
Accounts payable	(1,604,199)	1,458,119
Accrued payroll	133,431	269,746
Accrued taxes and other liabilities	(2,440,512)	4,121,787
Due to related parties	(1,651,383)	1,938,385
Unearned revenue	-	(164,637)
Net cash used for operating activities	$ (9,988,206)	$ (207,127)

Supplemental disclosure of noncash transactions:

During the years ended September 30, 2017 and 2016, respectively, CHCC recorded the following noncash transactions:

Noncash increase in federal grant expenditures	$ 2,856,373	$ 2,978,219
Noncash increase in federal grant revenue	(2,856,373)	(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, cash is defined as cash held in demand deposits and savings. At September 30, 2017 and 2016, total cash was $5,540,162 and $5,810,180, respectively, and the corresponding bank balances were $5,597,803 and $5,942,720, 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.

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 $267,317 and $250,593 to the DB Plan during the years ended September 30, 2017 and 2016, 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, 2017 and 2016 were $555,810 and $404,298, 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 $3,065,351 and $2,729,734 is recorded at September 30, 2017 and 2016, 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 $3,048,962 and $2,940,428 as of September 30, 2017 and 2016, 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 $49,464,023 and $42,247,621 for the years ended September 30, 2017 and 2016, 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. 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 years ended September 30, 2017 and 2016 as amounts were not available.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

During the year ended September 30, 2017, CHCC did not implement the following pronouncements as the CNMI did not record the effects of GASB Statements No. 68 and No. 71 as of and for the year ended September 30, 2017 as amounts are not available:

- GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.

- GASB 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.

- GASB 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.

During the year ended September 30, 2017, CHCC implemented the following pronouncements:

- GASB 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).

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.

- GASB 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 non-implementation and implementation of these statements did not have a material effect on the accompanying 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 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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 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 May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether 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) Patient Accounts Receivable

CHCC grants credit without collateral to its patients, many of whom are CNMI residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2017 and 2016, consist of:

	2017	2016
Third party insurers	$ 18,987,752	$ 12,068,309
Patient guarantors	2,444,484	1,664,019
Medicare	993,059	604,576
	22,425,295	14,336,904
Less allowance for uncollectible accounts	(14,740,800)	(8,099,753)
	$ 7,684,495	$ 6,237,151

(4) Capital Assets

Capital asset balances consist of the following as of September 30, 2017 and 2016:

	Estimated Useful Lives	Balance October 1, 2016	Increases	Decreases	Balance September 30, 2017
Capital assets being depreciated:					
Building	15 - 50 years	$ 36,625,365	$ 58,800	$ -	$ 36,684,165
Machinery and equipment	5 - 10 years	3,309,393	726,059	-	4,035,452
Computer software	5 - 10 years	1,255,290	-	-	1,255,290
Vehicles	5 - 10 years	215,774	-	-	215,774
		41,405,822	784,859	-	42,190,681
Less accumulated depreciation		(6,294,405)	(2,361,390)	-	(8,655,795)
Total capital assets, net		$ 35,111,417	$ (1,576,531)	$ -	$ 33,534,886

(4) Capital Assets, Continued

	Estimated Useful Lives	Balance October 1, 2015	Increases	Decreases	Balance September 30, 2016
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

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.

(5) Notes Payable to a Related Party

	2017	2016
Note payable to the Marianas Public Land Trust (MPLT), bearing interest at 5% per annum, due on June 12, 2018. The note is collateralized by future distributable income in fiscal year 2018 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 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
	$ 2,850,000	$ 2,850,000

Loan proceeds extinguished a prior loan obtained for operations.

(6) Long-Term Liability

Changes in long-term liability for the years ended September 30, 2017 and 2016, are as follows:

	Balance October 1, 2016	Additions	Reductions	Balance September 30, 2017	Due Within One Year
Compensated absences	$ 2,940,428	$ 1,969,207	$ (1,860,673)	$ 3,048,962	$ 1,158,606

	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

(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, 2017 and 2016, and the related receivable and payable balances, are as follows:

	2017			
	Revenues and Other Contributions	Expenses	Payables	Receivables
Commonwealth Utilities Corporation	$ -	$ 4,542,710	$ 14,772,748	$ -
CNMI Government	10,034,486	487,011	5,452,846	202,965
	$ 10,034,486	$ 5,029,721	$ 20,225,594	$ 202,965

	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

Notes payable to MPLT aggregate $2,850,000 at September 30, 2017 and 2016. Related interest expense for the years ended September 30, 2017 and 2016 amounted to $154,212 and $144,637, respectively.

(8) Related Party Transactions, Continued

CHCC recorded contributions from the CNMI of $10,034,486 and $3,133,696 during the years ended September 30, 2017 and 2016, respectively. Due from CNMI of $202,965 and $249,538 relates to unreconciled amounts at September 30, 2017 and 2016, respectively. Due to the CNMI relates to the 1% Public Auditor fee $2,232,608 and $1,745,597 at September 30, 2017 and 2016, respectively, and CHCC's contribution to the DB Plan of $3,220,238 and $3,224,321, 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 29 percent and 21 percent, respectively, of CHCC's gross patient revenue for the year ended September 30, 2017, and 29 percent and 23 percent, respectively, of CHCC's gross patient revenue for the year ended September 30, 2016. 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, 2017 and 2016 are as follows:

	2017	2016
Services provided to Medicare patients	$ 26,306,049	$ 23,006,733
Services provided to Medicaid patients	18,903,357	18,144,312
Services provided to third-party payer	22,498,747	17,941,997
Services provided to self-pay and other patients	23,282,583	19,753,459
	90,990,736	78,846,501
Less contractual adjustments and provisions for uncollectible accounts	(49,464,023)	(42,247,621)
Net patient service revenue	$ 41,526,713	$ 36,598,880

(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, 2017 and 2016 is $79,500. Minimum future lease income is $13,250 for the year ending September 30, 2018.

CHCC engages in various contracts to sustain hospital operations. Future contract commitments for the year ended September 30, 2017 have not been determined.

(11) Contingencies

At September 30, 2017 and 2016, CHCC recorded outstanding Medicare liabilities of $78,686 and $3,909,463, respectively. Of these amounts, $-0- and $2,557,625 relate to interest and penalties for late submission and payment of 2017 and prior years' Medicare withholdings at September 30, 2017 and 2016, respectively, based on payments made subsequent to September 30, 2017. The related interest and penalties for late submission and payment of Medicare withholdings for the remaining $-0- and $1,351,838 have not been determined and accordingly, is not recorded at September 30, 2017 and 2016, 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 $1,461,696 have been set forth in CHCC's Single Audit Report for the year ended September 30, 2017. 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.

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, 2017 and 2016, CHCC recorded outstanding and deficient employer contributions due to the CNMI of $3,220,238 and $3,224,321, respectively. The amount confirmed by the CNMI was $6,842,972 (inclusive of interest totaling $174,483) resulting in a variance of $3,622,734 and $3,618,651 at September 30, 2017 and 2016, respectively. An assessment of the outstanding and deficient employer contributions has not been determined and, accordingly, employer contributions of $3,622,734 and $3,618,651 are not reflected in the accompanying financial statements at September 30, 2017 and 2016, respectively.

(11) Contingencies, Continued

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, 2017 and 2016.

(12) Going Concern

CHCC incurred operating losses of $5,771,986 and $9,135,428 and negative cash flows from operations of $9,988,206 and $207,127 for the years ended September 30, 2017 and 2016, 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.

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) Subsequent Event

On July 19, 2018, MPLT renewed CHCC's line of credit totaling $2,850,000 with interest at 5% per annum and due on September 12, 2018.