Financial Statements, Required Supplementary Information and Supplementary Information

Commonwealth Healthcare Corporation

(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Years Ended September 30, 2019 and 2018
with Report of Independent Auditors

Building a better
working world

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(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Financial Statements, Required Supplementary Information and Supplementary Information

Years Ended September 30, 2019 and 2018

Table of Contents

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We were engaged to audit the financial statements of the Commonwealth Healthcare Corporation (CHCC), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), which comprise the statement of net position as of September 30, 2019, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements.

We do not express an opinion on the accompanying financial statements of CHCC. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

Evidence supporting significant account balances are not available. CHCC's records do not permit the application of other auditing procedures to the significant account balances.

In addition, 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, 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.

Managements Responsibility for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CHCC's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors Responsibility

Our responsibility is to conduct an audit on these financial statements based on conducting the 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. However, because of the matter described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of CHCC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Emphasis of Matters

Dependency on the CNMI Government

As described in Note 12 to the financial statements, CHCC has incurred losses and negative cash flows from operations which heightens CHCC's dependency on the CNMI Government to support its operations. Management's plans concerning these matters are described in Note 12. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CHCC's basic financial statements. The combining statement of net position and combining statement of revenues, expense and changes in net position on pages 33 and 34 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Report of Other Independent Auditors on 2018 Financial Statements

The financial statements of CHCC as of and for the year ended September 30, 2018 were audited by another auditor who expressed a qualified opinion in those financial statements on February 18, 2022.

Ernst + Young

November 7, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended September 30, 2019

INTRODUCTION

Public Law (P.L.) 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".

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 2019. 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 ended September 30, 2019, 2018 and 2017 comparative information have been included where appropriate.

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Financial Statements

CHCC's annual financial report consists of three statements–Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows and accompanying notes. The statements report the following financial information:

Statements of Net Assets – CHCC's Statements of Net Assets are presented in the Balance sheet format: Assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources, plus net position. These statements provide a snapshot of CHCC's financial health.

Statements of Revenues, Expenses, and Changes in Net Position present the results of operations during the fiscal years and the resulting changes in net position.

Statements of Cash Flows identify sources and uses of cash from operating activities, capital and financing activities, and investing activities.

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	2019	2018	Change	
Current assets	$27,442,220	$ 19,424,684	$ 8,017,536	41%
Depreciable capital assets, net	32,317,181	32,720,650	(403,469)	(1%)
Total assets	$59,759,401	$ 52,145,334	$ 7,614,067	15%
Liabilities and Net Position				
Liabilities:				
Current liabilities	$51,319,188	$ 42,994,358	$ 8,324,830	19%
Noncurrent portion of compensated absences	2,577,835	2,299,695	278,140	12%
Total liabilities	53,897,023	45,294,053	8,602,970	19%
Net position				
Net invested in capital assets	32,317,181	32,720,650	(403,469)	(1%)
Restricted	3,847,474	3,189,234	658,240	21%
Unrestricted	(30,302,277)	(29,058,603)	(1,243,674)	4%
Total net position	5,862,378	6,851,281	(988,903)	(14%)
	$59,759,401	$ 52,145,334	$ 7,614,067	15%

Assets	2019	2018	Change	
Current assets	$ 27,442,220	$ 19,424,684	$ 8,017,536	41%
Depreciable capital assets, net	32,317,181	32,720,650	(403,469)	(1%)
Total assets	$ 59,759,401	$ 52,145,334	$ 7,614,067	15%
Liabilities and Net Position				
Liabilities:				
Current liabilities	$ 51,319,188	$ 42,994,358	$ 8,324,830	19%
Noncurrent portion of compensated absences	2,577,835	2,299,695	278,140	12%
Total liabilities	53,897,023	45,294,053	8,602,970	19%
Net position				
Net invested in capital assets	32,317,181	32,720,650	(403,469)	(1%)
Restricted	3,847,474	3,189,234	658,240	21%
Unrestricted	(30,302,277)	(29,058,603)	(1,243,674)	4%
Total net position	5,862,378	6,851,281	(988,903)	(14%)
	$ 59,759,401	$ 52,145,334	$ 7,614,067	15%

Assets	2018	2017	Change	
Current assets	$ 19,424,684	$ 15,720,390	$ 3,704,294	24%
Depreciable capital assets, net	32,720,650	33,534,886	(814,236)	(2%)
Total assets	$ 52,145,334	$ 49,255,276	$ 2,890,058	6%
Liabilities and Net Position				
Liabilities:				
Current liabilities	$ 42,994,358	$ 35,978,352	$ 7,016,006	20%
Noncurrent portion of compensated absences	2,299,695	1,890,356	409,339	22%
Total liabilities	45,294,053	37,868,708	7,425,345	20%
Net position				
Net invested in capital assets	32,720,650	33,534,886	(814,236)	(2%)
Restricted	3,189,234	3,065,351	123,883	4%
Unrestricted	(29,058,603)	(25,213,669)	(3,844,934)	15%
Total net position	6,851,281	11,386,568	(4,535,287)	(40%)
	$ 52,145,334	$ 49,255,276	$ 2,890,058	6%

Statements of Revenues, Expenses and Changes in Net Position

	2019	2018	Change	
Operating revenues	$ 68,708,449	$ 46,876,718	$ 21,831,731	47%
Operating expenses	89,086,659	78,037,680	11,048,979	14%
Operating loss	(20,378,210)	(31,160,962)	10,782,752	(35%)
Nonoperating income (expense), net	19,389,307	26,625,675	(7,236,368)	(27%)
Change in net position	(988,903)	(4,535,287)	3,546,384	(78%)
Net position at beginning of year	6,851,281	11,386,568	(4,535,287)	(40%)
Net position at end of year	$ 5,862,378	$ 6,851,281	$ (988,903)	(14%)

	2018	2017	Change	
Operating revenues	$ 46,876,718	$ 43,571,827	$ 3,304,891	8%
Operating expenses	78,037,680	66,229,694	11,807,986	(18%)
Operating loss	(31,160,962)	(22,657,867)	(8,503,095)	38%
Nonoperating income (expense), net	26,625,675	27,388,928	(763,253)	(3%)
Change in net position	(4,535,287)	4,731,061	(9,266,348)	(196%)
Net position at beginning of year	11,386,568	6,655,507	4,731,061	71%
Net position at end of year	$ 6,851,281	$ 11,386,568	$ (4,535,287)	(40%)

Statements of Cash Flows

	2019	2018	2017
Cash flows from operating activities	$ (19,671,649)	$ (21,369,344)	$ (9,988,206)
Cash flows from noncapital financing activites	18,918,594	26,625,675	10,503,047
Cash flows from capital ad related financing activities	(2,149,740)	(1,655,112)	(784,859)
Net (decrease) increase in cash	(2,902,795)	3,601,219	(270,018)
Cash at beginning of year	9,141,381	5,540,162	5,810,180
Cash at end of year	$ 6,238,586	$ 9,141,381	$ 5,540,162

CHCC'S ANALYSIS AND FINANCIAL CONDITION

Financial Highlights

- CHCC's net position decreased by $988,903 or 14% from $6,851,281 in 2018 to $5,862,378 in 2019. This decrease in net assets is significantly lower than the $4,535,287 or 40% decrease from $11,386,568 in 2017 to $6,851,281 in 2018. The improved results of operations in 2019 is primarily attributable to the increase in operating revenues.

- In 2018, CHCC received $9,531,315 from appropriations from the CNMI government, $7 million of which were earmarked for public health programs and purchase of hospital equipment. In 2019, although CHCC was appropriated at the same level as in 2018 ($9,660,067), actual amounts transferred-in for the fiscal year ended September 30, 2019 was only $2,257,449 or 23.4% of the appropriation.

- CHCC's total assets increased from $52,145,334 as of September 30, 2018 to $59,759,401 as of September 30, 2019, and increased from $49,255,276 as of September 30, 2017 to $52,145,334 as of September 30, 2018. Total assets are composed of cash, receivables, advances, due from CNMI, inventories and depreciable capital assets, net of accumulated depreciation.

- CHCC's total liabilities increased from $45,294,053 as of September 30, 2018 to $53,897,023 as of September 30, 2019, and increased from $37,868,708 as of September 30, 2017 to $45,294,053 as of September 30, 2018.

  $41.3 million or 76.6% of CHCC's current liabilities as of September 30, 2019 are due to related parties.

- CHCC's operating revenues increased from $46,876,718 in fiscal year 2018 to $68,708,449 in fiscal year 2019 and increased from $43,571,827 in fiscal year 2017 to $46,876,718 in fiscal year 2018.

  In September and October 2018, CNMI was affected by Typhoons Mangkhut and Yutu resulting to an act of U.S Congress that provided "Additional Supplemental Appropriations for Disaster Relief Act, 2019" (P.L. 116-20). This included some Medicaid financing provisions impacting CNMI, American Samoa, and Guam. For CNMI, P.L. 116-20 increased the federal Medicaid funding for the period of January 1, 2019, through September 30, 2019, by $36 million. For this additional funding, the Federal Medical Assistance Percentage (FMAP) is increased from 55% to 100%. This is the primary reason for the increase in operating revenues for the fiscal year ended September 30, 2019 by $21,831,731 compared to 2018.

- CHCC's operating expenses increased from $78,037,680 in fiscal year 2018 to $89,086,659 in fiscal year 2019 and from $66,229,694 in fiscal year 2017 to $78,037,680 in fiscal year 2018. In fiscal year 2018, the significant increase in expenditure is related to support to public health activities funded by the earmarked appropriations and increase in salaries and wages.

The increase in operating expenses in 2019 is attributable to the increase in salaries and wages due to the impact of the Prevailing Wage Determination (PWD) on CNMI-Only Transitional Worker (CW). The Consolidated Natural Resources Act of 2008, which amended the 1976 covenant between the United States and the CNMI, established federal control of CNMI immigration beginning in 2009. Since then, the salaries of healthcare CW employees have exponentially increased, while non-CW employees' rates have marginally increased. Hence, CHCC initiated a within grade increase for all administrative and support employees on June 24, 2018. The full financial impact of the fiscal 2018 decision to reduced disparity is felt in fiscal 2019 in the $8,582,802 collective increase in salaries and wages and related employee benefits.

Capital Assets

At September 30, 2019, 2018 and 2017, CHCC had net investment in capital assets of $32,317,181, $32,720,650 and $33,534,886, respectively. See notes 2 and 4 to the financial statements for more detailed information on CHCC's capital assets.

Budgetary Analysis

	Budget 2019	Actual 2019	Favorable (Unfavorable)
Operating revenues	$ 44,104,259	$ 68,708,449	$ 24,604,190
Operating expenses	73,971,765	89,086,659	(15,114,894)
Operating loss	(29,867,506)	(20,378,210)	9,489,296
Nonoperating income (expense), net	29,867,506	19,389,307	(10,478,199)
Change in net position	$ -	$ (988,903)	$ (988,903)

CHCC requested for appropriation for the shortfall of projected revenues over expenditures for the fiscal year 2019 Budget. Of the $29,867,506 requested, $9,660,067 was appropriated and only $2,257,449 or 23.4% of the appropriation was transferred.

Despite the huge budgetary funding deficit, the actual deficit incurred in fiscal year 2019 only amounted to $988,903, due to the increase in operating revenues over budget and CHCC's commitment to keep the expenditures within budget.

CHALLENGES AND ACCOMPLISHMENTS

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 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. A full CMS survey was performed in April 2019, both CHCC Hospital and Dialysis center, maintained accreditation;

c. CHCC credentialed and privileged 28 new members to its medical staff in FY 2019 thereby expanding services in psychiatry, emergency medicine, pediatrics, general surgery, dentistry, obstetrics/gynecology and oncology;

d. The overall CHCC readmission rate in 2019 remains at 8.3%, compared to the national average of 15.3%;

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

  - Immunization delinquent students enrolled in CNMI schools and daycare centers decreased by 50% in the 2018-2019 school year, compared to the 2017-2018 school year from 2157 to 1076.

  - The CNMI Women, Infants, and Children Program (WIC) has worked to successfully increase breastfeeding initiation rates (the proportion of infants who are ever breastfed) to 94% in 2018, surpassing the Healthy People 2020 target of 81.9%. Breastfeeding leads to healthier outcomes for both the mother and the baby, including reducing the risk of Sudden Infant Death Syndrome. Beginning FY 2017, CNMI WIC have consistently exceeded National Fully Breastfed Rates.

Year	CNMI WIC	National
2019	18.0%	12.3%
2018	18.5%	12.5%
2017	16.5%	13.1%
2016	12.1%	13.2%

- In 2018 and 2019 the CHCC Crisis Counseling Program YUTU provided in-home counseling to over 3,000 community members and conducted 126 group counseling sessions at events and community centers.

ECONOMIC OUTLOOK

CHCC continuously evaluates its service delivery methods and strives to continuously 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.

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 2019 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.

Even with the severe financing challenges, the CHCC has made significant strides towards financial stability, with further gains expected in the future. However, without improvements to Medicaid and other third-party reimbursements, and a reduction in the uninsured population, the CHCC will be significantly encumbered when trying to meet our goals. Reducing the rate of uninsured patients in the CNMI through mechanisms such as employer-sponsored and government-sponsored health insurance would significantly improve CHCC's financial stability.

The Management's Discussion and Analysis for the year ended September 30, 2019 is set forth in CHCC's report on the audit of financial statements, which is dated November 7, 2024. That Discussion and Analysis explains the major factors impacting the 2019 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
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Statements of Net Position

	September 30, 2019	September 30, 2018
Assets		
Current assets:		
Cash	$ 6,238,586	$ 9,141,381
Patient accounts receivable, net of allowance	18,229,785	7,474,344
Other receivables	351,296	369,258
Advances	1,128,539	710,889
Due from CNMI government	245,847	252,880
Inventories	1,248,167	1,475,932
Total current assets	27,442,220	19,424,684
Depreciable capital assets, net of accumulated depreciation	32,317,181	32,720,650
Total assets	$ 59,759,401	$ 52,145,334
Liabilities and Net Position		
Current liabilities:		
Notes payable to a related party	$ 2,379,287	$ 2,850,000
Current portion of compensated absences	1,288,918	1,184,691
Accounts payable	4,581,073	5,087,051
Accrued payroll	1,250,078	956,699
Accrued taxes and other liabilities	14,713,318	10,314,367
Due to related parties	26,840,693	22,415,691
Unearned revenue	265,821	185,859
Total current liabilities	51,319,188	42,994,358
Compensated absences, net of current portion	2,577,835	2,299,695
Total liabilities	53,897,023	45,294,053
Net position:		
Net investment in capital assets	32,317,181	32,720,650
Restricted	3,847,474	3,189,234
Unrestricted	(30,302,277)	(29,058,603)
Total net position	5,862,378	6,851,281
Total liabilities and net position	$ 59,759,401	$ 52,145,334

See accompanying notes to basic financial statements.

Commonwealth Healthcare Corporation
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Statements of Revenues, Expenses and Changes in Net Position

	Year ended September 30, 2019	2018
Operating revenues:		
Net patient service revenue, net of contractual adjustments and provision for bad debts of $54,951,551 in 2019 and $53,583,289 in 2018	$ 65,033,005	$ 44,625,470
Other operating revenues:		
Other hospital services	1,884,260	1,113,268
Other revenues	1,214,233	442,184
Cafeteria food sales	309,798	264,257
Medical record services	177,876	219,716
Dental services	86,276	158,823
Contributions	3,001	53,000
Total operating revenues, net	68,708,449	46,876,718
Operating expenses:		
Wages and salaries	43,673,534	36,274,745
Supplies	10,650,915	7,932,694
Employee benefits	8,190,419	7,006,406
Professional services	4,125,419	3,981,838
Utilities	3,180,774	4,856,884
Food items	2,647,266	2,921,303
In kind vaccines	2,581,830	3,510,734
Depreciation	2,553,209	2,469,348
Cost of sales	1,782,431	532,412
Travel	1,317,292	1,463,896
Rentals	1,287,437	655,348
Repairs and maintenance	1,215,144	945,551
Miscellaneous	1,113,526	1,448,110
Indirect costs	1,067,125	270,345
Cleaning services	919,698	879,239
Communications	542,143	373,725
Recruitment/repatriation	487,239	401,579
Office equipment	399,442	300,896
Building improvements	353,445	476,588
Fuel and lubricants	244,061	194,347
Printing and photocopying	215,519	227,216
Freight and handling	184,655	120,831
Licenses and fees	177,195	214,066
Machinery and equipment	120,762	493,076
Furniture and fixtures	56,179	85,503
Vehicles	---	1,000
Total operating expenses	89,086,659	78,037,680
Operating loss	(20,378,210)	(31,160,962)
Nonoperating income (expense):		
Federal grant contributions	17,287,009	17,236,860
CNMI Government appropriation	2,257,449	9,531,315
Interest expense	(155,151)	(142,500)
Total nonoperating income, net	19,389,307	26,625,675
Change in net position	(988,903)	(4,535,287)
Net position at beginning of year	6,851,281	11,386,568
Net position at end of year	$ 5,862,378	$ 6,851,281

See accompanying notes to basic financial statements.

Commonwealth Healthcare Corporation
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Statements of Cash Flows

	Year ended September 30, 2019	2018
Cash flows from operating activities:		
Cash received from customers	$ 58,057,965	$ 47,233,608
Cash payments to suppliers for goods and services	(26,541,407)	(26,126,167)
Cash payments to employees for services	(51,188,207)	(42,476,785)
Net cash used for operating activities	(19,671,649)	(21,369,344)
Cash flows from noncapital financing activities:		
Cash received from the CNMI government	2,257,449	9,531,315
Federal and other contributions received	17,287,009	17,236,860
Payment of notes payable	(470,713)	---
Interest paid on notes payable	(155,151)	(142,500)
Net cash provided by noncapital financing activities	18,918,594	26,625,675
Cash flows from a capital and related financing activity – acquisition of capital assets	(2,149,740)	(1,655,112)
Net (decrease) increase in cash	(2,902,795)	3,601,219
Cash at beginning of year	9,141,381	5,540,162
Cash at end of year	$ 6,238,586	$ 9,141,381
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	$(20,378,210)	(31,160,962)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Bad debts	5,980,438	1,345,278
Depreciation	2,553,209	2,469,348
(Increase) decrease in assets:		
Receivables:		
General	(16,735,879)	(1,135,127)
Other	17,962	10,795
Advances	(417,650)	(164,275)
Due from the CNMI	7,033	(49,915)
Inventories	227,765	(109,831)
(Increase) decrease in liabilities:		
Compensated absences	382,367	435,424
Accounts payable	(505,978)	1,196,623
Accrued payroll	293,379	368,942
Accrued taxes and other liabilities	4,398,951	3,048,400
Due to related parties	4,425,002	2,190,097
Unearned revenue	79,962	185,859
Net cash used for operating activities	$(19,671,649)	$(21,369,344)

Supplemental disclosure of noncash transactions:

During the years ended September 30, 2019 and 2018, respectively, CHCC recorded the following noncash transactions:

	2019	2018
Noncash increase in federal grant expenditures	$ 2,581,830	$ 3,510,734
Noncash increase in federal grant revenue	(2,581,830)	(3,510,734)
	$ ---	$ ---

1. Organization and Purpose

Organization

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.

2. Summary of Significant Accounting Policies, continued

Taxes

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

Cash

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, 2019 and 2018, total cash was $6,238,586 and $9,141,381, respectively, and the corresponding bank balances were $6,372,569 and $9,081,172, respectively. All bank balances are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. CNMI law does not require component unit funds to be collateralized and thus CHCC's funds, in excess of FDIC insurance, are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Patient Accounts Receivable

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

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

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated at an amount that management believes will be adequate to absorb possible losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through an allowance for doubtful accounts charged to bad debts expense. Bad debts are written-off against the allowance based on the specific identification method.

Inventories

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

2. Summary of Significant Accounting Policies, continued

Capital Assets

In accordance with CNMI Public Law 16-51, the CNMI government 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 single-employer plan established and now administered by the CNMI. On September 30, 2013, the DB Plan was transferred to the Northern Mariana Islands Settlement Fund (NMISF). CHCC also contributes to a defined contribution plan (DC Plan).

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

On March 11, 2013, Public Law 18-02 was enacted to amend Public Law 17-82 to clarify those provisions necessary to expedite the refunds and to prevent any further frustration of the process. Included in the public law is the amendment of Section 203(a) of Title 1, Division 8, Part 3, which states that the government obligation to withhold and remit the employee's portion to the employee's defined account shall continue with respect to employees who do not terminate membership in the DB Plan. All but nine active CHCC employees voluntarily terminated membership in the DB Plan and CHCC contributed $287,596 and $266,503 to the DB Plan during the years ended September 30, 2019 and 2018, respectively.

2. Summary of Significant Accounting Policies, continued

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a single-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 their employee share. DC contributions for the years ended September 30, 2019 and 2018 were $846,684 and $738,391, 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.
- 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.
- 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.

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.

2. Summary of Significant Accounting Policies, continued

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.

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. CHCC has not accounted for the effects of GASB No. 68 on its financial statements.

Newly Adopted Pronouncements

During the year ended September 30, 2019, CHCC implemented the following pronouncements:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations associated with the retirement of a tangible capital asset.

- GASB Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

The implementation of these statements did not have a material effect on CHCC's financial statements.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statements will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. In accordance with GASB Statement No. 95, GASB Statement No. 84 is effective for fiscal year ending September 30, 2021.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. In accordance with GASB Statement No. 95, GASB Statement No. 87 will be effective for fiscal year ending September 30, 2022.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. In accordance with GASB Statement No. 95, GASB Statement No. 89 will be effective for fiscal year ending September 30, 2022.

GASB Statement No. 90, *Majority Equity Interest - an Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. In accordance with GASB Statement No. 95, GASB Statement No. 90 is effective for fiscal year ending September 30, 2021.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In May 2019, GASB issued Statement No. 91, *Conduit debt obligations*. The primary objectives of this Statement are to provide a single method reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for fiscal year ending September 30, 2023.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, *Leases*, and implementation Guide No. 2019-3, for interim financial reports, the terminology used to refer to derivative instruments and the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefits. The requirements related to effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reissuance recoveries and terminology used to refer to derivative instruments are effective upon issuance. The remaining requirements of GASB Statement No. 92 is effective for fiscal year ending September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; clarifying the definition of reference rate, as it is used in Statement 53, as amended. In accordance with GASB Statement No. 95, GASB Statement No. 93 will be effective for fiscal year ending September 30, 2022.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements. GASB Statement No. 94 will be effective for fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. GASB Statement No. 96 will be effective for fiscal year ending September 30, 2023.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal year ending September 30, 2022.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. GASB Statement No. 99:

- Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for fiscal year ending September 30, 2024.

- Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal year ending September 30, 2024.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for fiscal year ending September 30, 2023.

- Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Effective for fiscal year ending September 30, 2023.

- Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Effective for fiscal year ending September 30, 2023.

- Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability. In addition, the display and note disclosure requirements will result in more consistent, decision useful, understandable, and comprehensive information for users about accounting changes and error corrections. GASB Statement No. 100 will be effective for fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation.

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave. The model also will result in a more robust estimate of the amount of compensated absences that a government will pay or settle, which will enhance the relevance and reliability of information about the liability for compensated absences. GASB Statement No. 101 will be effective for fiscal year ending September 30, 2025.

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints.

This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. GASB Statement No. 102 will be effective for fiscal year ending September 30, 2025.

CHCC is currently evaluating the effects the above upcoming accounting pronouncements might have on its 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.

Reclassification

Certain reclassifications have been made to the accompanying 2018 financial statements for comparative purposes. Such reclassifications have no effect on previously reported change in net position.

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, 2019 and 2018, consist of:

	2019	2018
Third party insurers	$32,868,882	$18,658,741
Patient guarantors	6,161,157	4,101,174
Medicare	1,263,857	798,102
	40,293,896	23,558,017
Less allowance for uncollectible accounts	(22,064,111)	(16,083,673)
	$18,229,785	$ 7,474,344

4. Capital Assets

Depreciable capital assets consist of the following as of September 30, 2019 and 2018:

	Estimated Useful Lives	Balance October 1, 2018	Balance Increases	Balance Decreases	Balance September 30, 2019
Capital assets being depreciated:					
Building	15 - 50 years	$ 37,100,045	$ 33,205	$ ---	$ 37,133,250
Machinery and equipment	5 - 10 years	4,989,594	2,076,540	---	7,066,134
Computer software	5 - 10 years	1,540,380	---	---	1,540,380
Vehicles	5 - 10 years	215,774	39,995	---	255,769
		43,845,793	2,149,740	---	45,995,533
Less accumulated depreciation		(11,125,143)	(2,553,209)	---	(13,678,352)
Total depreciable capital assets, net		$ 32,720,650	$(403,469)	$ ---	$ 32,317,181

	Estimated Useful Lives	Balance October 1, 2017	Balance Increases	Balance Decreases	Balance September 30, 2018
Capital assets being depreciated:					
Building	15 - 50 years	$ 36,684,165	$ 415,880	$ ---	$ 37,100,045
Machinery and equipment	5 - 10 years	4,035,452	954,142	---	4,989,594
Computer software	5 - 10 years	1,255,290	285,090	---	1,540,380
Vehicles	5 - 10 years	215,774	---	---	215,774
		42,190,681	1,655,112	---	43,845,793
Less accumulated depreciation		(8,655,795)	(2,469,348)	---	(11,125,143)
Total depreciable capital assets, net		$ 33,534,886	$(814,236)	$ ---	$ 32,720,650

4. Capital Assets, continued

On January 4, 2012, Department of Public Lands conveyed the authority and responsibility over the management , use and disposition of public land (Lot Nos 098 D04 and 098 D05) in favor of the Commonwealth Healthcare Corporation.

PL 18-67 limited the intended use of these land to construction, maintenance or operations of medical facilities, wherein Medical Facilities was defined as physical structures in which activities directly related to healthcare and healthcare support are carried out. 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 if the land is leased for purposes other than allowed by PL 18-67.

The two properties are located adjacent to the hospital and are currently encumbered by CHCC's loan with Marianas Public land Trust (MPLT). CHCC have not obtained the fair value of the land, management has not yet determined the effect of this change on the accompanying financial statements.

5. Notes Payable to a Related Party

	2019	2018
Note payable to MPLT, bearing interest at 5% per annum, due on October 31, 2023. The note is collateralized by CHCC's real properties for CHCC's operational and bridge capital pursuant to CNMI Public Law No. 17-76	$2,379,287	$2,850,000

The note payable was fully repaid on October 1, 2023.

6. Long-Term Liability

Changes in long-term liability for the years ended September 30, 2019 and 2018, are as follows:

	Balance October 1, 2019	Additions	Reductions	Balance September 30, 2019	Due Within One Year
Compensated absences	$ 3,484,386	$ 3,563,450	$(3,181,083)	$ 3,866,753	$ 1,288,918

	Balance October 1, 2018	Additions	Reductions	Balance September 30, 2018	Due Within One Year
Compensated absences	$ 3,048,962	$ 2,201,149	$(1,765,725)	$ 3,484,386	$ 1,184,691

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, 2019 and 2018, and the related receivable and payable balances, are as follows:

	2019			
	Revenues and Other Contributions	Expenses	Payables	Receivables
Commonwealth Utilities Corporation	$ ---	$ 3,058,658	$ 23,690,573	$ ---
CNMI Government	2,257,449	---	3,150,120	245,847
	$ 2,257,449	$ 3,058,658	$ 26,840,693	$ 245,847

	2018			
	Revenues and Other Contributions	Expenses	Payables	Receivables
Commonwealth Utilities Corporation	$ ---	$ 4,749,549	$ 19,234,412	$ ---
CNMI Government	9,531,315	---	3,181,279	252,880
	$ 9,531,315	$ 4,749,549	$ 22,415,691	$ 252,880

Notes payable to MPLT aggregate $2,379,287 and $2,850,000, respectively at September 30, 2019 and 2018 and is presented as notes payable to a related party. Related interest expense for the years ended September 30, 2019 and 2018 amounted to $155,151 and $142,500, respectively.

CHCC recorded contributions from the CNMI government of $2,257,449 and $9,531,315 during the years ended September 30, 2019 and 2018, respectively. Due from CNMI government of $245,847 and $252,880 relates to unreconciled amounts at September 30, 2019 and 2018, respectively. Due to the CNMI government relates to the DB Plan of $3,150,120 and $3,181,279 at September 30, 2019 and 2018, respectively.

Unpaid employee withholding taxes, recorded as a component of accrued payroll and taxes, amounted to $12,085,812 and $7,542,879 as of September 31, 2019 and 2018, respectively.

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 27 percent and 26 percent, respectively, of CHCC's gross patient revenue for the year ended September 30, 2019, and 25 percent and 29 percent, respectively, of CHCC's gross patient revenue for the year ended September 30, 2018. 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, 2019 and 2018 are as follows:

	2019	2018
Services provided to Medicare patients	$ 32,272,041	$24,882,120
Services provided to Medicaid patients	30,786,823	28,316,811
Services provided to third-party payer	30,000,890	20,401,315
Services provided to self-pay and other patients	26,924,802	24,608,513
	119,984,556	98,208,759
Less contractual adjustments and provisions for uncollectible accounts	(54,951,551)	(53,583,289)
Net patient service revenue	$ 65,033,005	$44,625,470

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, 2019 and 2018 is $108,312 and $92,161, respectively. The contract was terminated in October 2019.

CHCC engages in various contracts to sustain hospital operations. Future contract commitments for the year ended September 30, 2019 have not been determined.

11. Contingencies

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 $2,735,605 have been set forth in CHCC's Single Audit Report ended September 30, 2019 and is comprised of questioned costs of $1,946,149 for fiscal year 2019 and $791,456 for fiscal year 2018. 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, 2019 and 2018, CHCC recorded outstanding and deficient employer contributions due to the CNMI of $3,150,120 and $3,181,279, respectively. The amount confirmed by the CNMI was $6,842,972 (inclusive of interest totaling $174,483) resulting in a variance of $3,692,852 and $3,661,693 at September 30, 2019 and 2018, respectively. An assessment of the outstanding and deficient employer contributions has not been determined and, accordingly, employer contributions of $3,692,852 and $3,661,693 are not reflected in the accompanying financial statements at September 30, 2019 and 2018, respectively. CHCC asserts that the difference is due to unpaid contribution prior to establishment of CHCC on October 1, 2011.

12. Going Concern

CHCC incurred operating losses of $20,378,210 and $31,160,962 and negative cash flows from operations of $19,671,649 and $21,369,344 for the years ended September 30, 2019 and 2018, respectively. On May 21, 2014, the CNMI Superior Court issued a temporary restraining order (TRO) and preliminary injunction prohibiting Commonwealth Utilities Corporation 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.

Supplementary Information

Commonwealth Healthcare Corporation
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Combining Statement of Net Position

September 30, 2019

	General Fund	Special Fund	Outpatient Pharmacy Fund	Federal Fund	Capital Assets Fund	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 6,132,554	$ -	$ 106,032	$ -	$ -	$ 6,238,586
Patient accounts receivable	18,229,785	-	-	-	-	18,229,785
Other receivables	351,296	-	-	-	-	351,296
Advances	1,128,539	-	-	-	-	1,128,539
Due from (to) CNMI	40,987,891	115,013	(1,165,155)	2,203,658	(41,895,560)	245,847
Inventories	929,293	-	318,874	-	-	1,248,167
Total current assets	67,759,358	115,013	(740,249)	2,203,658	(41,895,560)	27,442,220
Depreciable capital assets, net	-	-	-	-	32,317,181	32,317,181
Total assets	$ 67,759,358	$ 115,013	$ (740,249)	$ 2,203,658	$ (9,578,379)	$ 59,759,401
Liabilities and Net Position						
Current liabilities:						
Notes payable to a related party	$ 2,379,287	$ -	$ -	$ -	$ -	$ 2,379,287
Current portion of compensated absences	1,288,918	-	-	-	-	1,288,918
Accounts payable	3,658,230	10,848	22,691	889,304	-	4,581,073
Accrued payroll	1,250,078	-	-	-	-	1,250,078
Accrued taxes and other liabilities	14,713,318	-	-	-	-	14,713,318
Due to related parties	26,840,693	-	-	-	-	26,840,693
Unearned revenue	265,821	-	-	-	-	265,821
Total current liabilities	50,396,345	10,848	22,691	889,304	-	51,319,188
Compensated absences, net of current portion	2,577,835	-	-	-	-	2,577,835
Total liabilities	52,974,180	10,848	22,691	889,304	-	53,897,023
Net position:						
Net investment in capital assets	-	-	-	-	32,317,181	32,317,181
Restricted	36,164,655	-	-	-	(32,317,181)	3,847,474
Unrestricted	(21,379,477)	104,165	(762,941)	1,314,355	(9,578,379)	(30,302,277)
Total net position	14,785,178	104,165	(762,941)	1,314,355	(9,578,379)	5,862,378
Total liabilities and net position	$ 67,759,358	$ 115,013	$ (740,250)	$ 2,203,659	$ (9,578,379)	$ 59,759,401

Commonwealth Healthcare Corporation
(A Component Unit of the Commonwealth of the Northern Mariana Islands)

Combining Statement of Revenues, Expenditures and Changes in Net Position

Year Ended September 30, 2019

	General Fund	Special Fund	Outpatient Pharmacy Fund	Federal Fund	Capital Assets Fund	Total
Operating revenues:						
Net patient service revenue, net	$ 65,033,005	$ -	$ -	$ -	$ -	$ 65,033,005
Other operating revenues:						
Other hospital services	530,776	(24)	1,351,008	2,500	-	1,884,260
Cafeteria food sales	1,214,233	-	-	-	-	1,214,233
Medical record services	309,798	-	-	-	-	309,798
Contributions	177,876	-	-	-	-	177,876
Dental services	86,276	-	-	-	-	86,276
Other revenues	3,001	-	-	-	-	3,001
Total revenues	67,354,965	(24)	1,351,008	2,500	-	68,708,449
Operating expenses:						
Wages and salaries	38,614,380	43,522	-	5,015,632	-	43,673,534
Supplies	9,926,626	14,309	24,833	685,147	-	10,650,915
Employee benefits	7,006,809	12,888	-	1,170,722	-	8,190,419
Professional services	2,645,455	-	-	1,479,964	-	4,125,419
Utilities	3,058,658	-	-	122,116	-	3,180,774
Food items	405,146	-	-	2,242,120	-	2,647,266
In kind vaccines	-	-	-	2,581,830	-	2,581,830
Depreciation	-	-	-	-	2,553,209	2,553,209
Cost of sales	-	-	1,782,431	-	-	1,782,431
Travel	624,933	16,780	-	675,579	-	1,317,292
Rentals	685,272	-	-	602,165	-	1,287,437
Repairs and maintenance	1,098,211	325	-	116,608	-	1,215,144
Miscellaneous	599,970	5,400	-	508,156	-	1,113,526
Indirect Costs	-	-	-	1,067,125	-	1,067,125
Cleaning services	838,369	6,300	-	75,029	-	919,698
Communications	382,887	300	21	158,935	-	542,143
Recruitment/repatriation	487,239	-	-	-	-	487,239
Office equipment	355,134	-	31,858	12,450	-	399,442
Building improvements	227,687	10,721	-	115,037	-	353,445
Fuel and lubricants	215,110	-	-	28,951	-	244,061
Printing and photocopying	118,288	3,335	-	93,896	-	215,519
Freight and handling	86,861	-	82,409	15,385	-	184,655
Licenses and fees	136,593	-	2,820	37,782	-	177,195
Machinery and equipment	92,609	-	-	28,153	-	120,762
Furniture and fixtures	42,464	-	-	13,715	-	56,179
Total operating expenses	67,648,701	113,880	1,924,372	16,846,497	2,553,209	89,086,659
Operating loss	(293,736)	(113,904)	(573,364)	(16,843,997)	(2,553,209)	(20,378,210)
Nonoperating income (expense):						
Federal grant contributions	-	124,236	-	17,162,773	-	17,287,009
CNMI appropriation	2,257,449	-	-	-	-	2,257,449
Interest expense	(155,151)	-	-	-	-	(155,151)
Total nonoperating income, net	2,102,298	124,236	-	17,162,773	-	19,389,307
Change in net positions	1,808,562	10,332	(573,364)	318,776	(2,553,209)	(988,903)
Net position at beginning of year	12,976,616	93,833	(189,577)	995,579	(7,025,170)	6,851,281
Net position at end of year	$ 14,785,178	$ 104,165	$ (762,941)	$ 1,314,355	$ (9,578,379)	$ 5,862,378