

*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, 2020 and 2019
with Report of Independent Auditors*



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

Financial Statements, Required Supplementary Information
and Supplementary Information

Years ended September 30, 2020 and 2019

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Report of Independent Auditors

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

We were engaged to audit the accompanying financial statements of the Commonwealth Healthcare Corporation (CHCC), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), which comprise the statements of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion 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. 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.

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 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.

Disclaimer of Opinion

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

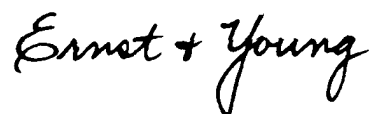
Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3 through 9 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

We were engaged for the purpose of forming an opinion on the basic financial statements as a whole. The combining statement of net position and the combining statement of revenues, expense and changes in net position on pages 31 and 32, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Because of the significance of the matter described in the basis of disclaimer of opinion paragraph, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

The logo for Ernst + Young, featuring the company name in a stylized, handwritten-style font.

March 6, 2026



Commonwealth Healthcare Corporation

Commonwealth of the Northern Mariana Islands
1178 Hinemlu' St. Garapan, Saipan, MP 96950



MANAGEMENT'S DISCUSSION AND ANALYSIS

Years ended September 30, 2020 and 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 years 2020 and 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, 2020, 2019 and 2018 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.



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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	2020	2019	Change	
Current assets	\$ 29,473,573	\$ 27,442,220	\$ 2,031,353	7%
Depreciable capital assets, net	33,662,505	32,317,181	1,345,324	4%
Total assets	<u>\$ 63,136,078</u>	<u>\$ 59,759,401</u>	<u>\$ 3,376,677</u>	6%
Liabilities and Net Position				
Liabilities:				
Current liabilities	\$ 57,783,378	\$ 51,319,188	\$ 6,464,190	13%
Noncurrent portion of compensated absences	2,577,835	2,577,835	-	0%
Total liabilities	<u>60,361,213</u>	<u>53,897,023</u>	<u>6,464,190</u>	12%
Net position				
Net invested in capital assets	33,662,505	32,317,181	1,345,324	4%
Restricted	2,502,150	3,847,474	(1,345,324)	-35%
Unrestricted	(33,389,790)	(30,302,277)	(3,087,513)	10%
Total net position	<u>2,774,865</u>	<u>5,862,378</u>	<u>(3,087,513)</u>	-53%
	<u>\$ 63,136,078</u>	<u>\$ 59,759,401</u>	<u>\$ 3,376,677</u>	6%
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	<u>\$ 59,759,401</u>	<u>\$ 52,145,334</u>	<u>\$ 7,614,067</u>	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	<u>53,897,023</u>	<u>45,294,053</u>	<u>8,602,970</u>	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	<u>5,862,378</u>	<u>6,851,281</u>	<u>(988,903)</u>	-14%
	<u>\$ 59,759,401</u>	<u>\$ 52,145,334</u>	<u>\$ 7,614,067</u>	15%



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Statements of Revenues, Expenses and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>Change</u>	
Operating revenues	\$ 70,691,758	\$ 68,708,449	\$ 1,983,309	3%
Operating expenses	100,102,824	89,086,659	11,016,165	12%
Operating loss	(29,411,066)	(20,378,210)	(9,032,856)	44%
Nonoperating income, net	26,323,553	19,389,307	6,934,246	36%
Change in net position	(3,087,513)	(988,903)	(2,098,610)	212%
Net position at beginning of year	5,862,378	6,851,281	(988,903)	-14%
Net position at end of year	<u>\$ 2,774,865</u>	<u>\$ 5,862,378</u>	<u>\$ (3,087,513)</u>	-53%

	<u>2019</u>	<u>2018</u>	<u>Change</u>	
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 (income)	(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	<u>\$ 5,862,378</u>	<u>\$ 6,851,281</u>	<u>\$ (988,903)</u>	-14%

CHCC'S ANALYSIS AND FINANCIAL CONDITION

Financial Highlights

- CHCC's net position decreased by \$3,087,513 (or 53%) from \$5,862,378 at September 30, 2019 to \$2,774,865 at September 30, 2020. This decrease in net assets is significantly higher than the \$988,903 decrease in 2019. The significant decrease in net position in 2020 is due to expenses incurred for CHCC's response to COVID-19 Public Health Emergency, a significant portion of which is subject to subsequent reimbursement from the Federal Emergency Management Agency.
- In 2019, CHCC received the same level of appropriation as in 2018, totaling \$9,660,067. However, for the fiscal year ended September 30, 2019, only \$2,257,449, representing 23.4% of the appropriated amount, was actually transferred. In fiscal year 2020, CHCC received transfers from the CNMI government amounting to \$2,976,861.



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- CHCC's total assets increased from \$59,759,401 as of September 30, 2019 to \$63,136,078 as of September 30, 2020, and from \$52,145,334 as of September 30, 2018 to \$59,759,401 as of September 30, 2019. Total assets are composed of cash, receivables, advances, due from CNMI, inventories and depreciable capital assets, net of accumulated depreciation.

The increase in total assets in fiscal year 2020 is primarily due to increase in Patient accounts receivable and increase in capital assets for purchased equipment to address CHCC's response to COVID-19.

- CHCC's total liabilities increased from \$53,897,023 as of September 30, 2019 to \$60,361,213 as of September 30, 2020, and increased from \$45,294,053 as of September 30, 2018 to \$53,897,023 as of September 30, 2019.

\$46.7 million (or 77.3%) of CHCC's current liabilities as of September 30, 2020 and \$41.3 million (or 76.6%) of CHCC's current liabilities as of September 30, 2019 are due to related parties.

The significant increase in liabilities is primarily due to an increase in accrued taxes and other liabilities and due to related parties.

- 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.

The temporary 100% FMAP ended in December 2019. The new FMAP beginning January 1, 2020 was 89.2%. CHCC's anticipated decrease in revenues did not materialize as the Commonwealth of the Northern Mariana Islands (CNMI) Medicaid Agency implemented Presumptive Eligibility (PE) in conjunction with the COVID-19 Public Health Emergency response, with key state plan amendments allowing this rapid application process increased Medicaid eligible clinic visits and hospital procedures. Revenues for the year ended September 30, 2020 increased by \$1,983,309 (or 3%) from \$68,708,449 in fiscal year 2019 to \$70,691,758.



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- CHCC’s operating expenses increased from \$89,086,659 in fiscal year 2019 to \$100,102,824 in fiscal year 2020, and increased from \$78,037,680 in fiscal year 2018 to \$89,086,659 in fiscal year 2019.

The \$11 million increase in operating expenses in 2020 is primarily attributable to the \$7.5 million increase in supplies, including pharmaceutical, laboratory and other medical supplies. The increase is due to increase in visits related to Medicaid Presumptive Eligibility. This increase also included operating cost of CHCC’s response COVID-19.

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, 2020, 2019 and 2018, CHCC had net investment in capital assets of \$33,662,505, \$32,317,181 and \$32,720,650, respectively. See notes 2 and 4 to the financial statements for more detailed information on CHCC’s capital assets.

Budgetary Analysis

	Budget 2020	Actual 2020	Favorable (Unfavorable)
Operating revenues	\$ 37,232,676	\$ 70,691,758	\$ 33,459,082
Operating expenses	87,993,094	100,102,824	12,109,730
Operating loss	(50,760,418)	(29,411,066)	21,349,352
Nonoperating income (expenses), net	50,760,418	26,323,553	(24,436,865)
Change in net position	\$ -	\$ (3,087,513)	\$ (3,087,513)

This budgetary analysis is for CHCC General Fund, excluding \$4,955,530 FEMA reimbursable expenditures.

CHCC requested for appropriation for the shortfall of projected revenues over expenditures for the fiscal year 2020 Budget. Of the \$50,760,418 requested, \$2,976,861 transferred in 2020. CHCC also received direct assistance of \$5,213,180 from Health Resources and Services Administration (HRSA) thru the Provider Relief Fund.



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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:

Population Health

Public Health programs have participated in over fifty (50) community-based outreach activities and reached about 6,299 individuals. Services have included presentations on various health topics and linkages to health screenings such as clinical breast exams, pap tests, oral cancer screening, HIV/STD testing and counseling, blood pressure screening and blood glucose testing, vaccinations, and safe sex kits. In addition, Question, Persuade, Refer (QPR) Basic Gatekeeper Training and Applied Suicide Intervention Skills Trainings (ASIST) were conducted teaching individuals how to recognize people at risk of suicide, to identify the key elements of an effective suicide safety plan and the actions required to implement it, and how to understand other important aspects of suicide prevention that includes life-promotion and self-care.

Northern Marianas Oncology Center

Opening of the Northern Marianas Oncology Center August 2020 - Providing the CNMI with accessible direct and immediate cancer care and treatment. In 2019, 291 patients were sent outside the CNMI for oncology services (16% of total), and in 2020, just 17 patients were sent for oncology services (2% of total).

Covid-19 Response Efforts

The investments that the CHCC has made towards the COVID-19 Pandemic has resulted in the reduction and control in community transmissions. The last community transmission case was identified in August 2020, and was contained and investigated by the contact tracing team to prevent further spread. In addition, travel screening protocols such as testing on arrival, on the 5th day after arrival, and mandatory quarantine procedures have been proven effective in preventing community transmission within the CNMI community. Fear of COVID-19 exposure significantly impacted patient decision-making this year, preventing patients from accessing healthcare services, especially during the height of the pandemic in the CNMI from March to June 2020. This significantly impacted revenue while the CHCC made significant investments in contact tracing, community testing, and other community-based COVID-19 control operations. The CHCC also invested in facilities and augmented staffing to mitigate patient and staff exposure to COVID-19.



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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 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 years ended September 30, 2020 and 2019 is set forth in CHCC's report on the audit of financial statements, which is dated March 6, 2026. That Discussion and Analysis explains the major factors impacting the 2020 and 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,	
	<u>2020</u>	<u>2019</u>
Assets		
Current assets:		
Cash	\$ 5,557,768	\$ 6,238,586
Patient accounts receivable, net of allowance	20,023,918	18,229,785
Other receivables	328,197	351,296
Advances	1,965,101	1,128,539
Due from CNMI government	238,271	245,847
Inventories	<u>1,360,318</u>	<u>1,248,167</u>
Total current assets	29,473,573	27,442,220
Depreciable capital assets, net of accumulated depreciation	<u>33,662,505</u>	<u>32,317,181</u>
Total assets	<u>\$63,136,078</u>	<u>\$59,759,401</u>
Liabilities and Net Position		
Current liabilities:		
Note payable to a related party	\$ 1,794,693	\$ 2,379,287
Current portion of compensated absences	2,028,768	1,288,918
Accounts payable	4,807,451	4,581,073
Accrued payroll	1,761,145	1,250,078
Accrued taxes and other liabilities	19,902,178	14,713,318
Due to related parties	27,203,078	26,840,693
Unearned revenue	<u>286,065</u>	<u>265,821</u>
Total current liabilities	57,783,378	51,319,188
Compensated absences, net of current portion	<u>2,577,835</u>	<u>2,577,835</u>
Total liabilities	<u>60,361,213</u>	<u>53,897,023</u>
Net position:		
Net investment in capital assets	33,662,505	32,317,181
Restricted	2,502,150	3,847,474
Unrestricted	<u>(33,389,790)</u>	<u>(30,302,277)</u>
Total net position	<u>2,774,865</u>	<u>5,862,378</u>
Total liabilities and net position	<u>\$63,136,078</u>	<u>\$59,759,401</u>

See accompanying notes.

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,	
	<u>2020</u>	<u>2019</u>
Operating revenues:		
Net patient service revenue, net of contractual adjustments and provision for bad debts of \$47,463,314 in 2020 and \$54,951,551 in 2019	\$ 65,076,889	\$65,033,005
Other operating revenues:		
Other hospital services	3,109,508	1,884,260
Contributions	1,018,920	3,001
Other revenues	857,939	1,214,233
Cafeteria food sales	337,569	309,798
Dental services	168,953	86,276
Medical record services	<u>121,980</u>	<u>177,876</u>
Total operating revenues, net	<u>70,691,758</u>	<u>68,708,449</u>
Operating expenses:		
Wages and salaries	49,730,951	43,673,534
Supplies	14,898,353	10,650,915
Employee benefits	9,194,449	8,190,419
Professional services	3,675,735	4,125,419
Cost of sales	3,009,661	1,782,431
Utilities	2,920,777	3,180,774
Depreciation	2,899,118	2,553,209
Food items	2,641,213	2,647,266
In kind vaccines	2,023,841	2,581,830
Rentals	995,407	1,287,437
Repairs and maintenance	896,160	1,215,144
Cleaning services	859,553	919,698
Miscellaneous	834,582	1,113,526
Indirect costs	699,459	1,067,125
Building improvements	694,786	353,445
Licenses and fees	647,308	177,195
Communications	617,824	542,143
Travel	612,399	1,317,292
Recruitment/repatriation	548,847	487,239
Machinery and equipment	484,921	120,762
Office equipment	455,511	399,442
Freight and handling	326,411	184,655
Printing and photocopying	196,513	215,519
Fuel and lubricants	167,402	244,061
Furniture and fixtures	65,958	56,179
Vehicle	<u>5,685</u>	<u>---</u>
Total operating expenses	<u>100,102,824</u>	<u>89,086,659</u>
Operating loss	(29,411,066)	(20,378,210)
Nonoperating income (expense):		
Federal grant contributions	23,475,674	17,287,009
CNMI Government appropriation	2,976,861	2,257,449
Interest expense	(128,982)	(155,151)
Total nonoperating income, net	<u>26,323,553</u>	<u>19,389,307</u>
Change in net position	(3,087,513)	(988,903)
Net position at beginning of year	<u>5,862,378</u>	<u>6,851,281</u>
Net position at end of year	<u>\$ 2,774,865</u>	<u>\$ 5,862,378</u>

See accompanying notes.

Commonwealth Healthcare Corporation
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Statements of Cash Flows

	Year ended September 30,	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from customers	\$ 68,948,544	\$ 58,057,965
Cash payments to suppliers for goods and services	(33,449,396)	(26,541,407)
Cash payments to employees for services	(57,674,483)	(51,188,207)
Net cash used for operating activities	<u>(22,175,335)</u>	<u>(19,671,649)</u>
Cash flows from noncapital financing activities:		
Cash received from the CNMI government	2,976,861	2,257,449
Federal and other contributions received	23,475,674	17,287,009
Payment of notes payable	(584,594)	(470,713)
Interest paid on notes payable	(128,982)	(155,151)
Net cash provided by noncapital financing activities	<u>25,738,959</u>	<u>18,918,594</u>
Cash flows from a capital and related financing activity – acquisition of capital assets	<u>(4,244,442)</u>	<u>(2,149,740)</u>
Net decrease in cash	(680,818)	(2,902,795)
Cash at beginning of year	<u>6,238,586</u>	<u>9,141,381</u>
Cash at end of year	<u>\$ 5,557,768</u>	<u>\$ 6,238,586</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$(29,411,066)	\$(20,378,210)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Bad debts	6,294,549	5,980,438
Depreciation	2,899,118	2,553,209
(Increase) decrease in assets:		
Receivables:		
General	(8,088,682)	(16,735,879)
Other	23,099	17,962
Advances	(836,562)	(417,650)
Due from the CNMI	7,576	7,033
Inventories	(112,151)	227,765
(Increase) decrease in liabilities:		
Compensated absences	739,850	382,367
Accounts payable	226,378	(505,978)
Accrued payroll	511,067	293,379
Accrued taxes and other liabilities	5,188,860	4,398,951
Due to related parties	362,385	4,425,002
Unearned revenue	<u>20,244</u>	<u>79,962</u>
Net cash used for operating activities	<u>\$(22,175,335)</u>	<u>\$(19,671,649)</u>

Supplemental disclosure of noncash transactions:

During the years ended September 30, 2020 and 2019, CHCC recorded the following noncash transactions, respectively:

Noncash increase in federal grant expenditures	\$ 2,023,841	\$ 2,581,830
Noncash increase in federal grant revenue	<u>(2,023,841)</u>	<u>(2,581,830)</u>
	<u>\$ ---</u>	<u>\$ ---</u>

See accompanying notes.

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

Notes to Financial Statements

Years ended September 30, 2020 and 2019

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.

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

Notes to Financial Statements, continued

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, 2020 and 2019, total cash was \$5,557,768 and \$6,238,586, respectively, and the corresponding bank balances were \$5,517,356 and \$6,372,569, respectively. All bank balances are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. CNMI law does not require component unit funds to be collateralized and thus CHCC's funds, in excess of FDIC insurance, are uncollateralized which amounted to \$5,267,269 and \$6,122,569 as of September 30, 2020 and 2019, respectively. 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 revenues. Bad debts are written off against the allowance based on the specific identification method.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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 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 previously 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 \$237,662 and \$287,596 to the DB Plan during the years ended September 30, 2020 and 2019, respectively.

Commonwealth Healthcare Corporation
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Notes to Financial Statements, continued

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, 2020 and 2019 were \$845,279 and \$846,684, 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.

Commonwealth Healthcare Corporation
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Notes to Financial Statements, continued

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.

Upcoming Accounting Pronouncements

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement postpones the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and postpones GASB Statement No. 87 by 18 months. In accordance with GASB Statement No. 95, CHCC has elected to postpone implementation of these statements.

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 Statement 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 CHCC for the 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 CHCC for the fiscal year ending September 30, 2022.

Commonwealth Healthcare Corporation
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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 CHCC for the 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 CHCC for the fiscal year ending September 30, 2021.

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 CHCC for the fiscal year ending September 30, 2023.

Commonwealth Healthcare Corporation
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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.

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.

Commonwealth Healthcare Corporation
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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.
- 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.

Commonwealth Healthcare Corporation
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- 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. 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.

Commonwealth Healthcare Corporation
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Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

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.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance the effectiveness of the financial reporting model in providing information that is essential for decision making and assessing a government's accountability and address certain application issues identified through pre-agenda research conducted by the GASB. This Statement establishes new accounting and financial reporting requirements or modifies existing requirements related to management's discussion and analysis (MD&A), unusual or infrequent items, presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position, information about major component units in basic financial statements, budgetary comparison information and financial trends information in the statistical section. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 103 will be effective for fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame.

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

Notes to Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 104 will be effective for fiscal year ending September 30, 2026.

In December 2025, GASB issued Statement No. 105, *Subsequent Events*. The objective of this statement is to provide guidance designed to improve the financial reporting requirements and enhance consistency in the application of those requirements for subsequent events. The statement defines subsequent events as transactions or other events that occur after the date of the financial reporting statements but before the date the financial statements are available to be issued. The definition of subsequent events in the statement modifies the subsequent events time frame throughout GASB literature. Statement No. 105 also clarifies types of subsequent events, when note disclosures are required, and information that should be included in those disclosures. GASB Statement No. 105 will be effective for fiscal year ending September 30, 2027.

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.

Commonwealth Healthcare Corporation
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Notes to Financial Statements, continued

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, 2020 and 2019 consist of:

	<u>2020</u>	<u>2019</u>
Third party insurers	\$38,116,287	\$32,868,882
Patient guarantors	7,601,929	6,161,157
Medicare	<u>2,664,362</u>	<u>1,263,857</u>
	48,382,578	40,293,896
Less allowance for uncollectible accounts	<u>(28,358,660)</u>	<u>(22,064,111)</u>
	<u>\$20,023,918</u>	<u>\$18,229,785</u>

4. Capital Assets

Depreciable capital assets consist of the following as of September 30, 2020 and 2019:

	Estimated <u>Useful Lives</u>	Balance <u>October 1, 2019</u>	Balance <u>Increases</u>	Balance <u>Decreases</u>	Balance <u>September 30, 2020</u>
Capital assets being depreciated:					
Building	15 - 50 years	\$ 37,133,250	\$ 983,030	\$ ---	\$ 38,116,280
Machinery and equipment	5 - 10 years	7,066,134	2,914,174	---	9,980,308
Computer software	5 - 10 years	1,540,380	223,645	---	1,764,025
Vehicles	5 - 10 years	255,769	98,485	---	354,254
Furniture and fixture	5 - 10 years	<u>---</u>	<u>25,108</u>	<u>---</u>	<u>25,108</u>
		45,995,533	4,244,442	---	50,239,975
Less accumulated depreciation		<u>(13,678,352)</u>	<u>(2,899,118)</u>	<u>---</u>	<u>(16,577,470)</u>
Total depreciable capital assets, net		<u>\$ 32,317,181</u>	<u>\$ 1,345,324</u>	<u>\$ ---</u>	<u>\$ 33,662,505</u>
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	<u>215,774</u>	<u>39,995</u>	<u>---</u>	<u>255,769</u>
		43,845,793	2,149,740	---	45,995,533
Less accumulated depreciation		<u>(11,125,143)</u>	<u>(2,553,209)</u>	<u>---</u>	<u>(13,678,352)</u>
Total depreciable capital assets, net		<u>\$ 32,720,650</u>	<u>\$(403,469)</u>	<u>\$ ---</u>	<u>\$ 32,317,181</u>

Commonwealth Healthcare Corporation
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Notes to Financial Statements, continued

5. Note Payable to a Related Party

	<u>2020</u>	<u>2019</u>
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.	<u>\$1,794,693</u>	<u>\$2,379,287</u>

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, 2020 and 2019, are as follows:

	<u>Balance October 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2020</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 3,866,753</u>	<u>\$ 3,415,961</u>	<u>\$(2,676,111)</u>	<u>\$ 4,606,603</u>	<u>\$ 2,028,768</u>
	<u>Balance October 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2019</u>	<u>Due Within One Year</u>
Compensated absences	<u>\$ 3,484,386</u>	<u>\$ 3,563,450</u>	<u>\$(3,181,083)</u>	<u>\$ 3,866,753</u>	<u>\$ 1,288,918</u>

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.

Commonwealth Healthcare Corporation
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Notes to Financial Statements, continued

7. Risk Management, continued

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, 2020 and 2019, and the related receivable and payable balances, are as follows:

	2020			
	Revenue and Other Contributions	Expenses	Payables	Receivables
Commonwealth Utilities Corporation	\$ ---	\$ 2,920,777	\$ 24,150,340	\$ ---
CNMI Government	<u>2,976,861</u>	<u>---</u>	<u>3,052,738</u>	<u>238,271</u>
	<u>\$ 2,976,861</u>	<u>\$ 2,920,777</u>	<u>\$ 27,203,078</u>	<u>\$ 238,271</u>
	2019			
	Revenue and Other Contributions	Expenses	Payables	Receivables
Commonwealth Utilities Corporation	\$ ---	\$ 3,180,774	\$ 23,690,573	\$ ---
CNMI Government	<u>2,257,449</u>	<u>---</u>	<u>3,150,120</u>	<u>245,847</u>
	<u>\$ 2,257,449</u>	<u>\$ 3,180,774</u>	<u>\$ 26,840,693</u>	<u>\$ 245,847</u>

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Notes to Financial Statements, continued

8. Related Party Transactions, continued

Note payable to MPLT amounted to \$1,794,693 and \$2,379,287 at September 30, 2020 and 2019, respectively, and is presented as note payable to a related party. Related interest expense for the years ended September 30, 2020 and 2019 amounted to \$128,982 and \$155,151, respectively. The loan was paid off in fiscal year 2024.

CHCC recorded appropriations from the CNMI government of \$2,976,861 and \$2,257,449 during the years ended September 30, 2020 and 2019, respectively. Due from CNMI Government of \$238,271 and \$245,847 relate to unreconciled amounts at September 30, 2020 and 2019, respectively. Due to CNMI government relates to the DB Plan of \$3,052,738 and \$3,150,120 at September 30, 2020 and 2019, respectively.

Unpaid employee withholding taxes, recorded as a component of accrued payroll and taxes, amounted to \$17,245,525 and \$12,085,812 as of September 31, 2020 and 2019, respectively.

On June 4, 2024, CHCC entered into a settlement agreement and a compromise with the CNMI Government relating to outstanding tax liabilities. Under the terms of the agreement, the CNMI Government agreed to resolve certain taxes owed by CHCC through negotiated settlement terms. The settlement is contingent upon CHCC's continued compliance with the conditions outlined in the agreement, including adherence to payment and reporting requirements.

Management is currently evaluating the financial impact of the settlement agreement. As of the date the financial statements were issued, CHCC believes that compliance with the agreement will allow the settlement to remain in effect. Failure to comply with the terms of the agreement could result in the reinstatement of the original tax obligations.

On August 12, 2025, CNMI Public Law 24-11 was enacted, waiving certain penalties, surcharges, interest and late fees owed by CHCC to the Commonwealth Utilities Corporation as of the law's effective date. Because CHCC had not previously accrued these amounts in its financial statements as of September 30, 2020, the enactment of this law did not have a material impact on CHCC's financial statements for the year ended September 30, 2020.

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Notes to Financial Statements, continued

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 of CHCC's gross patient revenue for the year ended September 30, 2020, and 26 percent and 25 percent, respectively, of CHCC's gross patient revenue for the year ended September 30, 2019. 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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Services provided to Medicare patients	\$ 30,606,662	\$ 32,272,041
Services provided to Medicaid patients	30,690,643	30,786,823
Services provided to third-party payer	32,500,379	30,000,890
Services provided to self-pay and other patients	<u>18,742,519</u>	<u>26,924,802</u>
	112,540,203	119,984,556
Less contractual adjustments and provisions for uncollectible accounts	<u>(47,463,314)</u>	<u>(54,951,551)</u>
Net patient service revenue	<u>\$ 65,076,889</u>	<u>\$ 65,033,005</u>

Commonwealth Healthcare Corporation
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Notes to Financial Statements, continued

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 year ended September 30, 2019 is \$108,312. 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, 2020 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 \$2,571,992 have been set forth in CHCC's Single Audit Report ended September 30, 2020 and is comprised of questioned costs of \$701,378 for fiscal year 2020 and \$1,870,614 for fiscal year 2019. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

11. Contingencies, continued

In April 2012, a court order was issued by the CNMI Superior Court authorizing autonomous agencies to remit employer contributions of 30% of covered payroll to NMIRF. On September 30, 2013, the United States District Court for the Northern Mariana Islands approved a Settlement agreement in a Class Action Settlement (Settlement), between a retiree (individually and on behalf of similarly-situated persons) and the CNMI, NMIRF and others. The Settlement includes the creation of the Settlement Fund to accept the transfer of NMIRF assets, receive annual contributions and payments by the CNMI and to carry out the consent judgment entered by the District Court. Further, Section 8.1 of the Settlement assigns the CNMI the rights to collect deficient employer contributions and related costs as of August 6, 2013 from autonomous agencies.

At September 30, 2020 and 2019, CHCC recorded outstanding and deficient employer contributions due to the CNMI of \$3,052,738 and \$3,150,120, respectively, and are presented as a component of due to related parties. The amount confirmed by the CNMI in 2019 was \$6,842,972 (inclusive of interest totaling \$174,483) resulting in a variance of \$3,692,852 at September 30, 2019. An assessment of the outstanding and deficient employer contributions has not been determined and, accordingly, employer contributions of \$3,790,233 (based on the 2019 confirmation from CNMI) and \$3,692,852 are not reflected in the accompanying financial statements at September 30, 2020 and 2019, respectively. CHCC asserts that the difference is due to unpaid contribution prior to establishment of CHCC on October 1, 2011.

Commonwealth Healthcare Corporation
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Notes to Financial Statements, continued

12. Going Concern

CHCC incurred operating losses of \$29,411,068 and \$20,378,210 and negative cash flows from operations of \$22,175,335 and \$19,671,649 for the years ended September 30, 2020 and 2019, respectively.

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.

Supplementary Information

Commonwealth Healthcare Corporation
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Combining Statement of Net Position

September 30, 2020

	<u>General Fund</u>	<u>Special Fund</u>	<u>Outpatient Pharmacy Fund</u>	<u>Federal Fund</u>	<u>Capital Assets Fund</u>	<u>Total</u>
Assets						
Current assets:						
Cash	\$ 5,546,275	\$ ---	\$ 11,493	\$ ---	\$ ---	\$ 5,557,768
Patient accounts receivable, net	20,023,918	---	---	---	---	20,023,918
Other receivables	328,197	---	---	---	---	328,197
Advances	1,965,101	---	---	---	---	1,965,101
Due from (to) CNMI	41,551,309	1,251,605	(1,813,284)	5,388,643	(46,140,002)	238,271
Inventories	1,024,228	---	336,090	---	---	1,360,318
Total current assets	<u>70,439,028</u>	<u>1,251,605</u>	<u>(1,465,701)</u>	<u>5,388,643</u>	<u>(46,140,002)</u>	<u>29,473,573</u>
Depreciable capital assets, net	---	---	---	---	33,662,505	33,662,505
Total assets	<u>\$ 70,439,028</u>	<u>\$ 1,251,605</u>	<u>\$ (1,465,701)</u>	<u>\$ 5,388,643</u>	<u>\$ (12,477,497)</u>	<u>\$ 63,136,078</u>
Liabilities and Net Position						
Current liabilities:						
Note payable to a related party	\$ 1,794,693	\$ ---	\$ ---	\$ ---	\$ ---	\$ 1,794,693
Current portion of compensated absences	2,028,768	---	---	---	---	2,028,768
Accounts payable	3,646,599	21,041	22,114	1,117,697	---	4,807,451
Accrued payroll	1,761,145	---	---	---	---	1,761,145
Accrued taxes and other liabilities	19,902,178	---	---	---	---	19,902,178
Due to related parties	27,203,078	---	---	---	---	27,203,078
Unearned revenue	286,065	---	---	---	---	286,065
Total current liabilities	<u>56,622,526</u>	<u>21,041</u>	<u>22,114</u>	<u>1,117,697</u>	<u>---</u>	<u>57,783,378</u>
Compensated absences, net of current portion	<u>2,577,835</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>2,577,835</u>
Total liabilities	<u>59,200,361</u>	<u>21,041</u>	<u>22,114</u>	<u>1,117,697</u>	<u>---</u>	<u>60,361,213</u>
Net position:						
Net investment in capital assets	---	---	---	---	33,662,505	33,662,505
Restricted	36,164,655	---	---	---	(33,662,505)	2,502,150
Unrestricted	<u>(24,925,988)</u>	<u>1,230,564</u>	<u>(1,487,815)</u>	<u>4,270,946</u>	<u>(12,477,497)</u>	<u>(33,389,790)</u>
Total net position	<u>11,238,667</u>	<u>1,230,564</u>	<u>(1,487,815)</u>	<u>4,270,946</u>	<u>(12,477,497)</u>	<u>2,774,865</u>
Total liabilities and net position	<u>\$ 70,439,028</u>	<u>\$ 1,251,605</u>	<u>\$ (1,465,701)</u>	<u>\$ 5,388,643</u>	<u>\$ (12,477,497)</u>	<u>\$ 63,136,078</u>

Commonwealth Healthcare Corporation
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Combining Statement of Revenues, Expenditures and Changes in Net Position

Year ended September 30, 2020

	General Fund	Special Fund	Outpatient Pharmacy Fund	Federal Fund	Capital Assets Fund	Total
Operating revenues:						
Net patient service revenue, net	\$ 65,056,749	\$ 20,140	\$ ---	\$ ---	\$ ---	\$65,076,889
Other operating revenues:						
Other hospital services	690,250	1,340	2,417,918	---	---	3,109,508
Contributions	18,920	1,000,000	---	---	---	1,018,920
Other revenues	857,839	100	---	---	---	857,939
Cafeteria food sales	337,569	---	---	---	---	337,569
Dental services	168,953	---	---	---	---	168,953
Medical record services	121,980	---	---	---	---	121,980
Total revenues	67,252,260	1,021,580	2,417,918	---	---	70,691,758
Operating expenses:						
Wages and salaries	44,470,327	56,379	---	5,204,245	---	49,730,951
Supplies	14,174,236	14,303	28,027	681,787	---	14,898,353
Employee benefits	7,925,407	14,818	---	1,254,224	---	9,194,449
Professional services	2,902,768	1,589	---	771,378	---	3,675,735
Cost of sales	---	---	3,009,661	---	---	3,009,661
Utilities	2,818,279	---	---	102,498	---	2,920,777
Depreciation	---	---	---	---	2,899,118	2,899,118
Food items	394,012	---	---	2,247,201	---	2,641,213
In kind vaccines	---	---	---	2,023,841	---	2,023,841
Rentals	585,236	2,405	---	407,766	---	995,407
Repair and maintenance	773,033	5,405	412	117,310	---	896,160
Cleaning services	802,403	---	---	57,150	---	859,553
Miscellaneous	391,480	5,460	---	437,642	---	834,582
Indirect Costs	---	---	---	699,459	---	699,459
Building improvements	458,478	26,058	---	210,250	---	694,786
Licenses and fees	505,599	---	300	141,409	---	647,308
Communications	456,409	9,528	207	151,680	---	617,824
Travel	428,787	---	---	183,612	---	612,399
Recruitment/repatriation	548,847	---	---	---	---	548,847
Machinery and equipment	419,904	---	---	65,017	---	484,921
Office equipment	300,188	36,324	38,977	80,022	---	455,511
Freight and handling	229,554	---	65,208	31,649	---	326,411
Printing and photocopying	102,177	900	---	93,436	---	196,513
Fuel and lubricants	141,478	---	---	25,924	---	167,402
Furniture and fixtures	25,543	---	---	40,415	---	65,958
Vehicles	5,685	---	---	---	---	5,685
Total operating expenses	78,859,830	173,169	3,142,792	15,027,915	2,899,118	100,102,824
Operating (loss) income	(11,607,570)	848,411	(724,874)	(15,027,915)	(2,899,118)	(29,411,066)
Nonoperating income (expense):						
Federal grant contributions	5,213,180	277,988	---	17,984,506	---	23,475,674
CNMI appropriation	2,976,861	---	---	---	---	2,976,861
Interest expense	(128,982)	---	---	---	---	(128,982)
Total nonoperating income, net	8,061,059	277,988	---	17,984,506	---	26,323,553
Change in net positions	(3,546,511)	1,126,399	(724,874)	2,956,591	(2,899,118)	(3,087,513)
Net position at beginning of year	14,785,178	104,165	(762,941)	1,314,355	(9,578,379)	5,862,378
Net position at end of year	\$ 11,238,667	\$ 1,230,564	\$ (1,487,815)	\$ 4,270,946	\$ (12,477,497)	\$ 2,774,865