DEPARTMENT OF PUBLIC LANDS
(A GOVERNMENTAL FUND OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

Mr. Pedro A. Tenorio
Secretary
Department of Public Lands:

We have audited the accompanying balance sheets of the Department of Public Lands (DPL), a governmental fund of the Commonwealth of the Northern Mariana Islands (CNMI), as of September 30, 2012 and 2011, and the related statements of revenues, expenditures and changes in fund balances for the years then ended. These financial statements are the responsibility of DPL's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DPL's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

We were unable to determine the propriety of due to CNMI balances of $1,625,813 and $1,442,630 as of September 30, 2012 and 2011, respectively, or the basis for reservation of $2,000,000 in fund balances at September 30, 2012 and 2011.

As discussed in note 1, the financial statements present only the financial position and changes in fund balances of DPL. They are not intended to present the financial position and changes in fund balances of the CNMI in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects on the financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to determine the propriety of the due to CNMI and reserved fund balances as of September 30, 2012 and 2011, as discussed in the third paragraph above, such financial statements, present fairly, in all material respects, the financial position of the Department of Public Lands as of September 30, 2012 and 2011, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 10 to the financial statements, accounts payable and due to the Marianas Public Land Trust (MPLT) have been restated due to resolution of a matter.

The CNMI Constitution requires that all revenues received by DPL in excess of the amount necessary to meet reasonable expenses of administration and management, land surveying, homestead development, and any other expenses reasonably necessary for the accomplishment of its functions, must be transferred to MPLT. DPL has not obtained concurrence from MPLT regarding its method for determining these amounts. DPL transferred $2,500,000 to the CNMI during the year ended September 30, 2010; between March 2009 and November 2010, DPL reimbursed the CNMI $1,395,459 for land compensation payments made by the CNMI and has recorded $583,508 as due to CNMI for additional reimbursements; and between June 2010 and September 2012, DPL disbursed $1,957,515 directly to the Northern Mariana Islands Retirement Fund which may have duplicated payments made by the CNMI and has subsequently recorded the amount as a fully reserved receivable. The effects of potential noncompliance with the CNMI Constitution could not be determined.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013, on our consideration of DPL's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

December 13, 2013

DEPARTMENT OF PUBLIC LANDS
(A Governmental Fund of the Commonwealth of the Northern Mariana Islands)

Balance Sheets
September 30, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 7,001,480	$ 7,296,590
Time certificate of deposit	387,321	386,863
Receivables, net	897,127	983,741
Total assets	$ 8,285,928	$ 8,667,194
LIABILITIES		
Accounts payable	$ 407,652	$ 385,247
Accrued liabilities	93,794	119,589
Due to CNMI	1,625,813	1,442,630
Accrued annual leave payable	118,369	139,451
Claims and judgments	567,543	567,543
Deferred revenue	31,238	156,191
Due to MPLT	307,109	890,527
Total liabilities	3,151,518	3,701,178
Commitment and contingencies		
FUND BALANCES		
Fund balances:		
Reserved	2,000,000	2,000,000
Unreserved	3,134,410	2,966,016
Total fund balances	5,134,410	4,966,016
Total liabilities and fund balances	$ 8,285,928	$ 8,667,194

See accompanying notes to financial statements.

DEPARTMENT OF PUBLIC LANDS
(A Governmental Fund of the Commonwealth of the Northern Mariana Islands)

Statements of Revenues, Expenditures and Changes in Fund Balances
Years Ended September 30, 2012 and 2011

	2012	2011
Revenues:		
Land leases	$ 3,064,541	$ 3,520,633
Temporary permits	245,770	275,541
Submerged land	45,000	75,000
Agriculture/grazing permits	5,705	6,302
Commercial permits	5,133	1,400
Filing fees and others	850	558
Other	118,473	82,312
Total revenues	3,485,472	3,961,746
Expenditures:		
Administrative:		
Salaries and wages	1,197,839	1,283,611
Bad debts	690,898	17,157
Personnel benefits	327,523	429,334
Rental	138,319	149,012
Professional fees	124,754	99,700
Travel and transportation	114,761	40,450
Utilities	73,575	92,956
Land structure	48,387	427,784
Fuel and lubricants	24,623	25,554
Supplies	24,060	20,446
Repairs and maintenance	16,631	14,545
Communications	16,048	31,476
Advertising	10,562	13,328
Insurance	8,571	7,635
Miscellaneous	117,380	41,824
Total expenditures	2,933,931	2,694,812
Excess of revenues over expenditures	551,541	1,266,934
Other financing sources (uses):		
Interest income	33,435	5,925
Transfer to MPLT	(416,582)	(127,884)
Total other financing sources (uses), net	(383,147)	(121,959)
Net change in fund balances	168,394	1,144,975
Fund balances at beginning of year	4,966,016	3,821,041
Fund balances at end of year	$ 5,134,410	$ 4,966,016

See accompanying notes to financial statements.

(1) Organization and Purpose

The Department of Public Lands (DPL), a governmental fund of the Commonwealth of the Northern Mariana Islands (CNMI), is the successor to the Marianas Public Land Corporation (MPLA) and is responsible for the management, use and disposition of public lands in the Northern Marianas through lease and permit arrangements and also administration of the homestead program for qualifying Northern Mariana citizens.

On February 22, 2006, Public Law 15-02 was enacted to create DPL within the Executive Branch of the CNMI Government and to transfer the obligations and responsibilities of MPLA to DPL. DPL is responsible for administration, use, leasing, development and disposition of all lands defined as public lands by Article XI of the CNMI Constitution or any other provision of law, subject to the provisions of Public Law 15-02 and except as limited by transfers of freehold interest to individuals, entities, or other government agencies. DPL's authority does not extend to the issuance of land use permits and licenses, except as specifically provided for in Public Law 15-02 and does not limit in any respect the authority of other Commonwealth agencies to issue permits and licenses pursuant to their respective enabling legislation. DPL is headed by a Secretary appointed by the Governor with the advice and consent of the Senate.

The CNMI Constitution requires that all revenues received by DPL in excess of the amount necessary to meet reasonable expenses of administration and management, land surveying, homestead development, and any other expenses reasonably necessary for the accomplishment of its functions, must be transferred to the Marianas Public Land Trust (MPLT). DPL has determined that amounts due to MPLT equal its unreserved fund balance less amounts budgeted for the ensuing fiscal year. DPL's unreserved fund balance was $3,441,519 and $3,856,543 at September 30, 2012 and 2011, respectively, and $3,134,410 and $2,966,016 was budgeted for fiscal years 2013 and 2012, respectively; as such DPL has recorded liabilities to MPLT of $307,109 and $890,527 as of September 30, 2012 and 2011, respectively. On November 1, 2011, DPL transferred $1,000,000 to MPLT in accordance with requirements of the CNMI Constitution.

(2) Summary of Significant Accounting Policies

The accounting policies of DPL conform to accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of significant accounting policies used by DPL.

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 expenditures during the reporting period. Actual results could differ from those estimates.

(2) Summary of Significant Accounting Policies, Continued

Fund Accounting

The accompanying financial statements present balance sheets and statements of revenues, expenditures and changes in fund balances. The assets, liabilities and fund balances of DPL are reported in self-balancing funds. Transactions between funds, if any, have not been eliminated.

Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered available if they are collected within sixty days of the end of the current fiscal period.

Concentrations of Credit Risk

Financial instruments which potentially subject DPL to concentrations of credit risk consist principally of cash demand deposits and investments.

At September 30, 2012 and 2011, DPL has cash deposits and investments in bank accounts that exceed federal depository insurance limits. DPL has not experienced any losses in such accounts.

Cash and Cash Equivalents

For purposes of the balance sheets and the statements of revenues, expenditures and changes in fund balances, DPL considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified on the balance sheets. At September 30, 2012 and 2011, total cash and cash equivalents and time certificate of deposits were $7,388,801 and $7,683,453, respectively, and the corresponding bank balances were $7,388,801 and $7,683,453, respectively. Of the bank balance amounts, $5,518,861 and $5,443,315 are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance as of September 30, 2012 and 2011, respectively. Bank deposits in the amount of $250,000 were FDIC insured as of September 30, 2012 and 2011. Of the bank balances, $1,869,940 and $2,240,138 were held in a financial institution not subject to FDIC, and thus are uncollateralized as of September 30, 2012 and 2011, respectively. Accordingly, the deposits are exposed to custodial credit risk. Public Law No. 12-61, the Government Deposit Safety Act of 1994, as amended, governs the general deposit policies of the CNMI and requires that all deposits of public funds made by the CNMI are to be collateralized by U.S. Government obligations at the rate of 100% of the corresponding bank deposit. Compliance with Public Law No. 12-61 as of September 30, 2012 and 2011, is presently not determinable. Accordingly, DPL deposits are exposed to custodial credit risk.

(2) Summary of Significant Accounting Policies, Continued

Receivables

DPL leases and grants permits for the use of public lands within the CNMI and bills for these charges on a regular basis. The accumulated provision for uncollectible accounts is stated at an amount which management believes will be adequate to absorb possible losses on receivables that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. The allowance is established through a provision for bad debts charged to expense. Uncollectible accounts are written off by the specific identification method against the allowance.

Property and Equipment

Property and equipment of DPL are not recorded in the accompanying financial statements but are recorded in the general purpose financial statements of the CNMI. Property and equipment are stated at cost. Depreciation is provided by using the straight-line method over the estimated useful lives of the respective assets. Current policy is to capitalize items in excess of $5,000.

Deferred Revenue

Deferred revenue represents prepaid lease income.

Compensated Absences

Vested or accumulated vacation leave is recorded as benefits accrue to employees. The liability at September 30, 2012 and 2011 amounted to $118,369 and $139,451, respectively. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Accumulated sick pay benefits as of September 30, 2012 and 2011 were $189,794 and $189,403, respectively.

Reserved Fund Balance

Reserved fund balance amounts are constrained for specific purposes which are externally imposed. DPL has reserved fund balance of $2,000,000 for homestead development.

Land Structure Expenditures

During the years ended September 30, 2012 and 2011, DPL expended $48,387 and $427,784 on land surveying, road construction and right-of-ways for homestead development.

Retirement Plan

DPL contributes to the Northern Mariana Islands Retirement Fund's (the Fund) defined benefit plan (DB Plan) and defined contribution plan (DC Plan), a cost sharing, and multi-employer plan (the Plan) established and administered by the CNMI.

The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. DPL has complied with GASB 45 by recording OPEB expense based on the statutorial determined contribution rate of the Fund. DPL's OPEB liability is incorporated into the contribution amount. It is the understanding of the management of DPL that the statutorial determined contribution rate of the Fund incorporates both the pension liability and the OPEB liability. GASB 45 also requires detailed disclosure of information related to the OPEB plan and DPL management was unable to obtain this information from the Fund financial report. DPL management is unable to obtain the required disclosures and is of the opinion that such information must be obtained from the Fund. It is the position of the management of DPL that the Fund is solely responsible for disclosure of OPEB information.

Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2 and 16-36.

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The actuarial contribution rate for fiscal years ended September 30, 2012 and 2011 have yet to be determined. The actuarially determined contribution rate for the fiscal year ended September 30, 2009 is 60.8686% of covered payroll based on an actuarial valuation as of October 1, 2009 issued in May 2011. The established statutory rate at September 30, 2010 is 37.3909% of covered payroll. DPL's recorded DB contributions to the Fund for the years ended September 30, 2012, 2011 and 2010 were \$267,974, \$321,557 and \$377,440, respectively, equal to the required statutory contributions for each year.

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. Authorization of participation has not been obtained from the U.S. Government. 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.

(2) Summary of Significant Accounting Policies, Continued

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. DPL is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. DPL's recorded DC contributions for the years ended September 30, 2012, 2011 and 2010 were $19,640, $17,050 and $18,212, respectively, equal to the required contributions for each year.

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.

New Accounting Standards

During the year ended September 30, 2012, DPL implemented the following pronouncements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and addresses issues related to the frequency and timing of measurements for actuarial valuations first used to report funded status information in OPEB plan financial statements. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53), which will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of this pronouncement did not have a material effect on the accompanying financial statements.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of DPL.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity,* and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The provisions of this statement are effective for periods beginning after June 15, 2012. Management does not believe that the implementation of this statement will have a material effect on the financial statements of DPL.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The provisions of this statement are effective for periods beginning after December 15, 2011. Management does not believe that the implementation of this statement will have a material effect on the financial statements of DPL.

In July 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The provisions of this statement are effective for periods beginning after December 15, 2011. Management has not yet determined the effect of implementation of this statement on the financial statements of DPL.

In April 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of DPL.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of DPL.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of DPL.

(3) Receivables

A summary of receivables as of September 30, 2012 and 2011, is as follows:

	2012	2011
Lease and permits	$ 7,739,086	$ 7,807,089
Notes	2,648,245	7,420,613
Royalties	5,698,656	801,728
Other	33,500	248,193
	16,119,487	16,277,623
Less allowance for doubtful accounts	(15,222,360)	(15,293,882)
	$ 897,127	$ 983,741

During the years ended September 30, 2012, 2011 and 2010, DPL directly disbursed $690,898, $17,157 and $1,249,460, respectively, to the Fund. As the disbursements may have duplicated payments made by the CNMI, and as reimbursement from the Fund is uncertain, DPL has recorded the amounts as fully reserved receivables.

(4) Due from/to CNMI

Effective October 1, 2007, disbursement of certain DPL expenses was centralized at the CNMI Department of Finance (DOF). DPL reimburses the CNMI for expenses paid on behalf of DPL. DPL reimbursed DOF $2,090,524 and $2,248,404 during the years ended September 30, 2012 and 2011, respectively. Due to CNMI of $1,625,813 and $1,442,630 as of September 30, 2012 and 2011, respectively, represent DPL expenses paid by the CNMI which have not been reimbursed, including land claims of $583,508.

(5) Claims and Judgments

The claims and judgments liability relates to a land compensation judgment issued against the CNMI and DPL in 2009 regarding private land that MPLC leased to three companies without proper title. The total judgment of $2,690,020 was comprised of $567,543, which MPLC/DPL collected from the three companies, and $2,122,477 in just compensation, owed to the landowners. Management of DPL has determined that just compensation judgments are the liability of the CNMI and has only recorded $567,543 as a liability of DPL.

(6) Lease and Permit Income

On August 31, 2001, DPL entered into a *Special Concession Agreement* (the Agreement) for special recreational concession on Managaha Island with a local tour company. The Agreement was established under Public Law No. 12-33 which grants the tour company an exclusive concession area for a term of five years effective September 1, 2001.

(6) Lease and Permit Income, Continued

On July 3, 2002, Public Law No. 13-16 required that collections of the Managaha Island landing and user fees be deposited into a special trust account maintained by the tour company. Such fees are used for costs incurred for construction, maintenance, upkeep and repair of the facilities, improvements to the Managaha Island infrastructure, to provide public safety, or maintain the cleanliness and appearance of Managaha Island. Fees in excess of costs are disbursed by the tour company to DPL. DPL recorded receivables of $293,786 and $113,361 related to net fee collections as of September 30, 2012 and 2011, respectively.

On October 4, 2006, the terms of the Agreement were amended extending the concession for an additional ten years commencing on September 1, 2006. Upon execution of the amended Agreement, the tour company advanced minimum annual base rent of $1,560,000 ($312,000 per annum) to DPL. The amended Agreement also requires the tour company to pay DPL additional gross receipts rent based on the greater of the annual base rent or 3% of annual gross receipts from concessions. During the years ended September 30, 2012 and 2011, DPL did not receive additional gross receipts.

Effective August 31, 2011, the terms of the Agreement were amended again to reduce the minimum annual base rent for the five year period from September 1, 2011 to September 1, 2016 to $1,450,800 ($290,160 per annum). Upon execution, the tour company was required to pay $290,160 in advance for the first year, with the remaining balance of $1,160,640 to be paid on September 1, 2012.

The tour company asserted it was not receiving the exclusive right to conduct tours "from" Managaha Island pursuant to the Agreement insofar as other marine sports operators allow their customers, who purchase tours off of Managaha Island, to visit Managaha Island before or after a tour. In June 2012, five marine sports operators sued DPL under *Island Marine Sports v. DPL* (Civ. No. 12-0151). The CNMI Superior Court ruled in favor of the other marine sports operators in finding that several letters published by DPL regarding the right to conduct tours "from" Managaha Island constituted unlawful agency actions made without observance of required administrative procedures. The ruling is on appeal with the CNMI Supreme Court. The tour company has refused to pay the balance of $1,160,640 but offered payment of $229,778 as an abatement of the amount due for 2013. This abatement has not been received or formalized by DPL and negotiations with the tour company are ongoing.

DPL leases and grants permits for the use of public lands. Lease and permit terms range from one to twenty-five years and in most instances contain provisions for percentage rent. Lease and permit income for the years ended September 30, 2012 and 2011 amounted to $3,366,149 and $3,878,876, respectively. Minimum future lease income is as follows:

Year ending September 30,	Minimum Lease Income Due
2013	$ 2,339,308
2014	2,084,885
2015	2,023,687
2016	1,761,588
2017	1,287,996
2018 - 2022	4,543,847
2023 - 2027	3,737,990
2028 - 2032	2,668,450
2033 - 2037	1,415,985
2038 - 2041	562,290
	$ 22,426,026

(7) Commitment

DPL leases office space in Saipan, Rota and Tinian. The lease agreements provide for an annual rental of $85,374 on Saipan, $8,100 on Rota and $7,200 on Tinian during the terms of the leases. Total future minimum lease payments under these leases for subsequent years ending September 30 are as follows:

Year ending September 30,	
2013	$ 109,209
2014	93,249
2015	92,574
2016	33,858
	$ 328,890

(8) Contingencies

DPL maintained deposits in the Bank of Saipan (the Bank). On April 30, 2002, the Bank went into receivership. On May 27, 2003, the Bank officially reopened for business; however, DPL has been restricted from full access to the deposits held at the Bank. In October 2004, DPL signed a Depository and Non-Withdrawal Agreement with the Bank, which requires the Bank disburse $30,000 per month to DPL beginning the effective date of the agreement. DPL's deposits with the Bank amounted to $1,869,940 and $2,240,138 as of September 30, 2012 and 2011, respectively.

The CNMI Constitution requires that all revenues received by DPL in excess of the amount necessary to meet reasonable expenses of administration and management, land surveying, homestead development, and any other expenses reasonably necessary for the accomplishment of its functions, must be transferred to MPLT. DPL has not obtained concurrence from MPLT regarding its method for determining these amounts. Management of DPL has determined that the following transactions may have violated DPL's constitutional mandate:

- DPL transferred $2,500,000 to the CNMI during the year ended September 30, 2010;
- Between March 2009 and November 2010, DPL reimbursed the CNMI $1,395,459 for land compensation payments made by the CNMI and has recorded $583,508 as due to CNMI for additional reimbursements.
- Between June 2010 and September 2012, DPL disbursed $1,957,515 directly to the Northern Mariana Islands Retirement Fund which may have duplicated payments made by the CNMI and has subsequently recorded the amount as a fully reserved receivable

The effects of potential noncompliance with the CNMI Constitution could not be determined by DPL management and are not reflected in the accompanying financial statements.

(8) Contingencies, Continued

Landing fees maintained in cash accounts by DPL relate to prior year collection of landing fees for the island of Managaha. On February 18, 1999, Public Law 11-64 was enacted which required landing fee collections to be available for appropriation by the Saipan and Northern Islands Legislative Delegation. Collections of the Managaha Island landing and user fees were deposited in the Managaha Island Land and User Fee cash account. DPL has taken the position that the constitutionality of Public Law 11-64 should be determined by the CNMI Supreme Court in response to a certified question. DPL is in the process of issuing that certified question. Although not considered reserved, DPL has maintained the landing fees in separate cash accounts. As of September 30, 2012 and 2011, landing fees held in cash accounts by DPL amounted to $2,754,561 and $2,750,851, respectively.

(9) Risk Management

DPL is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. DPL has elected to purchase commercial insurance from independent third parties for the risks of losses to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage.

(10) Restatement

On August 12, 2005, DPL entered into an agreement with the Commonwealth Utilities Corporation (CUC) for designation of use of public domain lands. The agreement provides that CUC will waive DPL's monthly utility consumption charges effective April 1, 2001. Based on the agreement, the waived utility charges will continue to apply for all future utility billings of DPL so long as the agreement remains in effect. In November 2013, DPL determined that the agreement expired on May 1, 2005. DPL has elected to restate accounts payable and due to MPLT by $208,787 as of October 1, 2010.

At October 1, 2010	As Originally Stated	As Restated
Accounts payable	$ 85,233	$ 294,020
Due to MPLT	$ 971,430	$ 762,643

(11) Subsequent Events

CNMI Public Law No. 18-18, the Appropriations and Budget Authority Act of 2014, was passed into law on September 18, 2013. Public Law 18-18 appropriated $3,260,796 and $2,000,000 for DPL operations and homestead development, respectively.

In November 2012, NMIRF sought guidance from the federal court relating to the legality of certain provisions authorized by Public Law 17-82. As a result, the distribution of employee contributions of DB Plan members who elected to terminate their membership and withdraw their contributions was ceased pending the federal court's guidance. As part of a settlement agreement discussed below, distribution of employee contributions resumed in August 2013.

(11) Subsequent Events, Continued

On August 7, 2013, the United States District Court for the Northern Mariana Islands issued an order for the preliminary approval of Civil Case No. 09-00023, 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 a 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.

As part of the Settlement, the CNMI agrees to make minimum annual payments to the Settlement Fund to allow for the payment of 75% of Class Members' full benefits annually during the Settlement Fund's expected life and as determined by an independent actuary appointed by the Trustee and approved by the District Court. In addition, the Settlement authorizes NMIRF to distribute employee contributions (exclusive of interest) of $10,000,000 to former members of the DB Plan who elected to terminate their membership in accordance with Public Law 17-82 with the remainder to be distributed upon final approval of the Settlement agreement. On September 30, 2013, the United States District Court for the Northern Mariana Islands approved the Settlement agreement.