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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, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

Ms. Marianne Concepcion-Teregeyo
Secretary
Department of Public Lands

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Public Lands (DPL), a governmental fund of the Commonwealth of the Northern Mariana Islands (CNMI), which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of revenues, expenditures and changes in fund balances for the years then ended, and the related notes to the financial statements, which collectively comprise DPL's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Public Lands as of September 30, 2016 and 2015, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

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.

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 reserved amounts for the ensuing fiscal year budget, the establishment and adoption of a comprehensive land use plan, and vehicle purchases which are not restricted by the CNMI Constitution. 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 between June 2010 and September 2014, DPL disbursed $2,002,146 directly to the Northern Mariana Islands Retirement Fund, which may have duplicated payments made by the CNMI. The effects of potential noncompliance with the CNMI Constitution, if any, could not be determined.

Our opinion is not modified with respect to these matters.

Other Matters

In our report dated October 3, 2016, we expressed an opinion that the 2015 financial statements did not fairly present the financial position and results of operations of DPL in accordance with accounting principles generally accepted in the United States of America as we were unable to determine the propriety of the basis for reservation of fund balances and due to CNMI balances. As described in note 1, DPL, through positions taken by the CNMI Office of the Attorney General, has determined that amounts appropriated for homestead development, the ensuring year's budget, and other matters can be considered reserved. In addition, DPL reconciled amounts due to CNMI. Accordingly, our present opinion on the 2015 financial statements, as presented herein, is different from that expressed in our previous report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2018 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DPL's internal control over financial reporting and compliance.

Deloitte & Touche LLC

January 3, 2018

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

Balance Sheets
September 30, 2016 and 2015

ASSETS	2016	2015
Cash and cash equivalents	$ 5,814,890	$ 3,290,981
Time certificates of deposit	3,757,370	2,735,957
Receivables, net	1,524,546	1,223,896
Advances to MPLT	-	388,388
Total assets	$ 11,096,806	$ 7,639,222
LIABILITIES		
Accounts payable	$ 91,275	$ 71,184
Accrued liabilities	92,267	138,306
Due to CNMI	1,036,770	1,170,751
Accrued annual leave payable	125,507	117,100
Security deposits	738,413	720,000
Unearned revenues	1,126,375	954,108
Due to MPLT	866,339	-
Total liabilities	4,076,946	3,171,449
Commitment and contingencies		
FUND BALANCES		
Fund balances:		
Reserved	7,019,860	4,467,773
Total fund balances	7,019,860	4,467,773
Total liabilities and fund balances	$ 11,096,806	$ 7,639,222

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, 2016 and 2015

	2016	2015
Revenues:		
Land leases	$ 6,191,351	$ 5,297,364
Temporary permits	416,657	328,639
Commercial permits	215,902	101,861
Submerged land	59,511	60,000
Filing fees and others	37,634	58,408
Agriculture/grazing permits	1,825	7,870
Other	1,229,200	14,686
	8,152,080	5,868,828
Bad debt	(990,076)	(392,640)
Net revenues	7,162,004	5,476,188
Expenditures:		
Administrative:		
Salaries and wages	1,602,701	1,581,948
Personnel benefits	293,347	240,864
Professional fees	203,191	191,151
Rental	105,040	105,510
Travel and transportation	79,897	54,037
Utilities	45,791	47,973
Supplies	31,639	29,154
Insurance	24,442	19,948
Repairs and maintenance	20,983	15,272
Communications	18,777	19,242
Fuel and lubricants	15,521	13,459
Advertising	9,638	12,223
Homestead development	-	584,508
Miscellaneous	112,869	47,323
Total expenditures	2,563,836	2,962,612
Excess of revenues over expenditures	4,598,168	2,513,576
Other financing sources (uses):		
Interest income	8,980	9,016
Transfer to MPLT	(2,055,061)	(2,874,349)
Total other financing uses, net	(2,046,081)	(2,865,333)
Net change in fund balances	2,552,087	(351,757)
Fund balances at beginning of year	4,467,773	4,819,530
Fund balances at end of year	$ 7,019,860	$ 4,467,773

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 Lands Authority (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, through positions taken by the CNMI Office of the Attorney General, has determined that amounts appropriated for homestead development, the ensuing year's budget, and other matters can be considered reserved. Any change from this determination will be treated prospectively. DPL has determined that amounts due to MPLT equal its unreserved fund balance; as such DPL has recorded (due to) advances to MPLT of $(866,339) and $388,388 as of September 30, 2016 and 2015, respectively. On March 28, 2016 and December 29, 2014, DPL transferred $800,394 and $5,000,000, respectively, 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. DPL's significant accounting policies are described below:

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, 2016 and 2015, 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 and Time Certificates of Deposit

For purposes of the balance sheets, 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, 2016 and 2015, total cash and cash equivalents and time certificates of deposit, and the corresponding bank balances, were $9,572,260 and $6,026,938, respectively. Of the bank balances, $9,572,260 and $4,735,035 are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance as of September 30, 2016 and 2015, respectively, and deposits of $250,000 were FDIC insured as of those dates. Bank balances of $-0- and $1,291,903 were held in a financial institution not subject to FDIC, and thus are uncollateralized as of September 30, 2016 and 2015, 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. As of September 30, 2016, deposits of $9,572,260 maintained in a financial institution subject to FDIC insurance are collateralized by U.S. government obligations at the rate of 100%.

(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 debt 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.

Unearned Revenues

Unearned revenues represent prepaid lease income and other prepayments.

Compensated Absences

Vested or accumulated vacation leave is recorded as benefits accrue to employees. The liability at September 30, 2016 and 2015 amounted to $125,507 and $117,100, respectively. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Accumulated sick pay benefits as of September 30, 2016 and 2015 were $183,016 and $148,372, respectively.

Reserved Fund Balance

Reserved fund balance amounts are constrained for specific purposes which are externally imposed. DPL has reserved fund balance of $1,775,256 and $835,584 for homestead development, $1,000,000 and $-0- for establishment and adoption of a comprehensive land use plan for the CNMI, $37,000 and $-0- for a vehicle purchase, $3,207,604 and $3,632,189 for the ensuing years budget and $1,000,000 and $-0- for settlement fees received (see note 5) at September 30, 2016 and 2015, respectively.

Homestead Development

During the years ended September 30, 2016 and 2015, DPL expended $-0- and $584,508, respectively, on land surveying, road construction and right-of-ways for homestead development.

Retirement Plan

DPL contributed to the Northern Mariana Islands Retirement Fund's (NMIRF) defined benefit plan (DB Plan), a cost-sharing, multiple-employer plan established and administered by the CNMI. On September 30, 2013, the DB Plan was transferred to the Northern Mariana Islands Settlement Fund (NMISF). DPL also contributes to a defined contribution plan (DC Plan).

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

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

On March 11, 2013, Public Law 18-02 was enacted to amend Public Law 17-82 to clarify those provisions necessary to expedite the refunds and to prevent any further frustration of the process. Included in the public law is the amendment of Section 203(a) of Title 1, Division 8, Part 3, which states that the government obligation to withhold and remit the employee's portion to the employee's defined account shall continue with respect to employees who do not terminate membership in the DB Plan. All but three active DPL employees voluntarily terminated membership in the DB Plan and DPL contributed $39,454 and $36,634 to the DB Plan during the years ended September 30, 2016 and 2015, respectively.

For the years ended September 30, 2016 and 2015, DPL contributed $102,568 and $99,293 to the U.S. Social Security system, respectively.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. 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, 2016, 2015 and 2014 were $18,318, $14,327 and $11,760, 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.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards

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

- GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements and requires entities to expand their fair value disclosures by determining major categories of debt and equity securities within the fair value hierarchy on the basis of the nature and risk of the investment. The implementation of this statement did not have a material effect on the accompanying financial statements.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which eliminates two of the four categories of authoritative GAAP that exist under the existing hierarchy prescribed by Statement No. 55. The two categories that will remain under the new standard are (1) GASB Statements and (2) GASB technical bulletins and implementation guides in addition to AICPA guidance that the GASB clears. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements No. 67 and No. 68 with the reporting requirements in Statement No. 68. The provisions in Statement No. 73 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions in Statement No. 74 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The provisions in Statement No. 77 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions in Statement No. 78 are effective for fiscal years beginning after December 15, 2015. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The provisions in Statement No. 80 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

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

In March 2016, GASB issued Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement No. 82 are effective for fiscal years beginning after June 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

(2) Summary of Significant Accounting Policies, Continued

Reclassifications

Certain 2015 balances in the accompanying financial statements have been reclassified to conform to the 2016 presentation.

(3) Receivables

A summary of receivables as of September 30, 2016 and 2015 is as follows:

	2016	2015
Leases and permits	$ 11,786,923	$ 10,458,067
Notes	7,107,382	11,658,540
Other receivables	10,385	20,788
	18,904,690	22,137,395
Less allowance for doubtful accounts	(17,380,144)	(20,913,499)
	$ 1,524,546	$ 1,223,896

During the years ended September 30, 2014, 2013, 2012, 2011 and 2010, DPL directly disbursed $6,324, $38,307, $690,898, $17,157 and $1,249,460, respectively, to NMIRF. The disbursements may have duplicated payments made by the CNMI but, as reimbursement from NMIRF is uncertain, DPL has not recorded the amounts as receivable.

DPL paid out $262,944 in land compensation judgments in fiscal year 2009 pursuant to Public Law 16-31. The Commonwealth Supreme Court later held that Public Law 16-31 was unconstitutional as it deprived MPLT of revenue generated from public lands. DPL has taken the position that the CNMI should have paid amounts to the plaintiff but has not recorded the $262,944 as a receivable as collectability is uncertain.

(4) Due 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 $2,715,581 and $3,207,312 during the years ended September 30, 2016 and 2015, respectively. Due to CNMI of $1,036,770 and $1,170,751 as of September 30, 2016 and 2015, respectively, represent DPL expenses paid by the CNMI which have not been reimbursed.

(5) Revenues

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, 2016 and 2015 amounted to $6,922,880 and $5,854,142, respectively. Minimum future lease income is as follows:

(5) Revenues, Continued

Year ending September 30,	Minimum Lease Income Due
2017	$ 2,552,128
2018	2,287,940
2019	1,683,943
2020	1,623,321
2021	1,676,943
2022 - 2026	7,563,152
2027 - 2031	3,896,044
2032 - 2036	2,355,056
2037 - 2040	1,156,439
	$ 24,794,966

On April 26, 2016, the CNMI Office of the Attorney General filed cross-claims on behalf of DPL against a lessee and a third party for unfair and deceptive trade practices in connection with a pending DPL request for proposal. On May 9, 2016, the entire case including the antitrust claims were settled through mediation, with DPL receiving $500,000 from each of the parties. The settlement fees received are presented as other revenues for the year ended September 30, 2016. A dispute now exists as to the source of the $1,000,000 settlement proceeds and whether such proceeds, which the Commonwealth could have brought in a separate action, but for reasons of expediency and to avoid any argument of claim preclusion if brought separately were brought in the name of the Secretary of DPL, must be remitted to the Marianas Public Land Trust. DPL has not remitted these proceeds to the General Fund or to MPLT as it may face challenges from either side and the amount has been reserved in the accompanying financial statements.

(6) Commitment

DPL leases office space in Saipan, Rota and Tinian. The lease agreements provide for an annual rental of $85,374 on Saipan, $8,040 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,	
2017	$ 100,614
2018	92,114
2019	28,458
	$ 221,186

(7) Contingencies

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. Management of DPL has determined that the following transactions may have violated DPL's constitutional mandate:

(7) Contingencies, Continued

- 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;
- Between June 2010 and September 2014, DPL disbursed $2,002,146 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) 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.