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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

YEARS ENDED SEPTEMBER 30, 2022 AND 2021

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

Years ended September 30, 2022 and 2021

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Mr. Sixto K. Igisomar
Secretary
Department of Public Lands

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities of the Department of Public Lands (DPL) as of and for the years ended September 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Department of Public Lands' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective balance sheets of the governmental activities of DPL, as of September 30, 2022 and 2021, and the respective statement of revenues, expenditures, and changes in fund balances for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DPL and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 DPL's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the DPL's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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). Additionally, as discussed in Note 1, the CNMI Office of the Attorney General issued an opinion on the constitutionality of DPL's expenditure of revenues from public lands to cover its operating expenses and has recommended that a certified question be presented to the CNMI Supreme Court. DPL has reserved fund balance amounts for its ensuing year's budget as authorized by Public Law 15-02. The effects of potential noncompliance with the CNMI Constitution, if any, could not be determined.

We draw attention to Note 10, which discloses the economic uncertainties that have arisen as a result of the declared outbreak of a coronavirus (COVID-19) pandemic by the World Health Organization. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2025, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of DPL's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering DPL's internal control over financial reporting and compliance.

Burger Comer & Associates

Saipan, MP
June 27, 2025

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

Balance Sheets
September 30, 2022 and 2021

	2022	2021
Assets:		
Current assets:		
Cash and cash equivalents	$ 6,908,455	7,198,250
Restricted cash and cash equivalents	1,623,460	1,316,316
Receivables, net	1,218,762	943,967
Lease receivable, current	1,404,477	29,517
	11,155,154	9,488,050
Noncurrent assets:		
Lease receivable, noncurrent	11,709,428	265,654
Right-of-use asset, net	744,011	-
Total assets	$ 23,608,593	9,753,704
Liabilities:		
Current liabilities:		
Accounts payable	113,243	30,637
Accrued liabilities	139,029	201,797
Lease liability, current	127,000	-
Total current liabilities	379,272	232,434
Noncurrent liabilities:		
Due to CNMI	282,843	44,059
Security deposits	1,640,650	1,301,515
Unearned revenues	-	812,824
Due to MPLT	-	1,083,819
Lease liability, noncurrent	653,692	-
Total liabilities	2,956,457	3,474,651
Deferred inflows of resources:		
Deferred inflows - Leases	15,086,392	327,968
	15,086,392	327,968
Fund balances:		
Reserved	5,565,744	5,951,085
Total fund balances	5,565,744	5,951,085
Total liabilities and fund balances	$ 23,608,593	9,753,704

See accompanying independent auditor's report and notes to financial statements.

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

Statements of Revenues, Expenditures, and Changes in Fund Balances

Years Ended September 30, 2022 and 2021

	2022	2021
Revenues:		
Land leases	$ 4,017,001	3,773,811
Filing fees and others	43,916	35,210
Interest and late fees from outstanding receivables	263,589	142,818
Other	3,337	14,978
Total revenues	4,327,843	3,966,817
Expenditures:		
Administrative:		
Salaries and wages	2,092,145	2,306,784
Bad debts	754,122	259,000
Personnel benefits	421,159	467,418
Professional fees	266,423	248,147
Rental	238,484	208,020
Vehicle	221,773	15,490
Repairs and maintenance	131,500	38,669
Homestead development	119,222	95,054
Office supplies	80,947	57,646
Fuel and lubricants	72,266	54,590
Equipment	69,176	77,329
Marianas Public Land Trust	57,076	-
Utilities	49,312	41,959
Travel and transportation	41,382	17,958
Miscellaneous	41,218	16,713
Insurance	34,411	36,752
Communications	21,675	18,629
Furniture and fixtures	9,988	424
Advertising	9,007	12,084
Total expenditures	4,731,286	3,972,666
Excess (deficiency) of revenues over (under) expenditures	(403,443)	(5,849)
Other financing sources:		
Interest income	18,102	3,446
Total other financing sources	18,102	3,446
Net change in fund balances	(385,341)	(2,403)
Fund balances at beginning of year	5,951,085	5,986,285
Adjustment to fund balance at beginning of the year	-	(32,797)
Fund balances at end of year	$ 5,565,744	5,951,085

See accompanying independent auditor's report and 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), a component unit of the CNMI which manages all monies received by it from DPL. DPL has determined that amounts appropriated for homestead development 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 MPLT of $-0- and $1,083,819 as of September 30, 2022 and 2021, respectively. On September 2, 2022, July 8, 2021, March 16, 2021, August 19, 2019, May 13, 2019, May 3, 2019, September 14, 2018 and February 14, 2018, DPL transferred $1,140,895, $516,596, $4,451,471, $567,508, $2,414,477, $3,345,700, $1,501,174 and $866,339, respectively, to MPLT in accordance with requirements of the CNMI Constitution.

On October 15, 2018, the CNMI Office of the Attorney General (OAG) issued an opinion on the constitutionality of DPL's expenditure of revenues from public lands to cover its operating expenses. The opinion concluded that supplemental appropriations to DPL may not be made from unobligated and unencumbered prior fiscal year balances and that these balances must be transferred to MPLT. The OAG opinion also questioned how much, if any, and for what may the Legislature appropriate from public land revenues to DPL and recommended that a certified question be presented to the CNMI Supreme Court. No request for a certified question has been submitted as of the date of these financial statements.

(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.

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 ninety 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, 2022 and 2021, DPL has cash deposits and investments in bank accounts that exceed federal depository insurance limits. DPL has not experienced any losses in such accounts.

(2) Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents and Time Certificates of Deposit

For purposes of the balance sheet, DPL considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents. At September 30, 2022 and 2021 total cash and cash equivalents, and the corresponding bank balances, were $8,234,420 and $8,425,180, respectively. The bank balances are maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022 and 2021 deposits of $250,000 in each year were FDIC insured. 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, 2022 and 2021, deposits of $8,234,420 and $8,425,180, respectively, maintained in a financial institution subject to FDIC insurance are collateralized by U.S. government obligations at the rate of 100%.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents of $1,623,460 and $1,316,316 represent security deposits received from lessees as of September 30, 2022 and 2021, respectively.

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.

Unearned Revenues

Unearned revenues represent prepaid lease income and other prepayments.

(2) Summary of Significant Accounting Policies, continued

Compensated Absences

Vested or accumulated vacation leave at September 30, 2022 and 2021 was \$220,554 and \$229,913, respectively. Accumulated sick pay benefits as of September 30, 2022 and 2021 was \$324,947 and \$289,401, respectively. These amounts, however, are not recorded at the fund level.

Security Deposits

Security deposits are primarily composed of deposits related to land leases held by hospitality establishments in Saipan. On October 16, 2019, DPL transferred security deposits of \$10,000,000 to the CNMI to settle a lessee's outstanding obligations.

Reserved Fund Balance

Reserved fund balance amounts are constrained for specific purposes which are externally imposed. DPL has reserved fund balance of \$317,515 and \$496,861 for homestead development, \$4,251,893 and \$4,487,021 for the ensuing years budget, and \$1,000,000 and \$1,000,000 for settlement fees received (see note 5) at September 30, 2022 and 2021, respectively.

Homestead Development

For the years ended September 30, 2022 and 2021, DPL expended \$119,222 and \$95,054, respectively, on land surveying, road construction and right-of-way for homestead development.

Retirement Plan

DPL does not record pension expense and a related net pension asset or liability, deferred inflows of resources and deferred outflows of resources as such recording is the responsibility of the CNMI.

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 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 the 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. At September 30, 2022 and 2021, there were no active employees contributing to the DB Plan.

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, 2022 and 2021 were $24,677 and $20,386, 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

Leases

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition is accounted for under GASB Statement No. 87 unless explicitly excluded.

A contract that transfers ownership of the underlying asset to the lessee by the end of the contract and does not contain termination options but that may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised is reported as a financed purchase of the underlying asset or sale of the asset by DPL.

DPL accounts for the lease and non-lease components of a lease as separate contracts. If a lease involves multiple underlying assets, DPL, in certain cases, accounts for each underlying asset as a separate lease contract. To allocate the contract price to different components, DPL uses contract prices for individual components as long as they do not appear to be unreasonable based on professional judgment or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining a best estimate is not practicable, multiple components in a lease contract are accounted for as a single lease unit. Contracts that are entered into at or near the same time with the same counterparty and that meet certain criteria are considered part of the same lease contract and are evaluated in accordance with the guidance for contracts with multiple components.

The lease term is defined as the period during which a lessee has a non-cancelable right-to-use (RTU) an underlying asset, plus the following periods, if applicable:

- Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option
- Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option
- Periods covered by a lessor's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option
- Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.

A fiscal funding or cancellation clause should affect the lease term only when it is reasonably certain that the clause will be exercised.

(2) Summary of Significant Accounting Policies, continued

Leases, continued

The lease term is reassessed only if one or more of the following occur:

- The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option.
- The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option.
- An event specified in the lease contract that requires an extension or termination of the lease takes place.

An amendment to a lease contract is considered a lease modification unless the DPL's right to use the underlying asset decreases, in which case it would be a partial or full lease termination. DPL accounts for lease termination by reducing the carrying values of the lease liability and lease asset or the lease receivable and deferred inflows of resources, with any difference being recognized as a gain or loss. A lease modification that does not qualify as a separate lease is accounted for by remeasuring the lease liability and adjusting the related lease asset or remeasuring the lease receivable and adjusting the related deferred inflows of resources.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Short-term lease payments are recognized as outflows of resources or inflows of resources based on the payment provisions of the lease contract.

DPL adopted GASB Statement No. 87 retroactively by restating the financial statements for all prior periods presented. Accordingly, the financial statements for the year ended September 30, 2021 have been restated to reflect the effects of applying the new standard as of beginning of that year. The adoption resulted in recognition of lease receivable and deferred inflows of resources for which DPL is the lessor.

Lessee Accounting

DPL recognizes a lease liability and a RTU asset at the commencement of the lease term unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability is measured at the present value of payments expected to be made during the lease term less any lease incentives. The RTU asset is measured at the amount of the initial measurement of the lease liability, including any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

(2) Summary of Significant Accounting Policies, continued

Lessee Accounting, continued

The future lease payments are discounted using the interest rate the lessor charges DPL, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined, an estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) will be used.

DPL reduces the lease liability as payments are made and recognizes an outflow of resources for interest on the liability. DPL amortizes the RTU asset using the straight-line method over the shorter of the lease term or the useful life of the underlying asset.

Variable payments based on future performance of DPL or usage of the underlying asset should not be included in the measurement of the lease liability but are recognized as outflows of resources in the period in which the obligation for those payments is incurred. However, any component of those variable payments that is fixed in substance should be included in the measurement of the lease liability.

Lessor Accounting

As a lessor, DPL recognizes a lease receivable and a deferred inflow of resources at the commencement of the lease term for leases that meet the criteria under GASB Statement No. 87, *Leases*. A lease receivable is not recognized for short-term leases or leases that transfer ownership of the underlying asset.

The lease receivable is measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the same amount as the lease receivable, adjusted for any lease payments received at or before the commencement of the lease term that relate to future periods.

DPL recognizes interest revenue on the lease receivable and an inflow of resources from the deferred inflow of resources on a straight-line basis over the term of the lease. The lease receivable is reduced as payments are received.

The future lease payments are discounted using the interest rate the lease contract charges the lessee, which may be the rate implicit in the lease. If the rate cannot be readily determined, an estimate based on DPL’s lending practices may be used.

Variable payments based on future performance or usage are not included in the measurement of the lease receivable but are recognized as inflows of resources in the period in which the payment is received. Any portion of those variable payments that is fixed in substance is included in the measurement of the lease receivable.

(2) Summary of Significant Accounting Policies, continued

Lessor Accounting, continued

For land lease agreements, the lease terms include provisions for appraising the land value every five years. The results of the appraisal may result in an adjustment to lease payments for the subsequent period. Any increase in lease payments resulting from reappraisal is treated as a lease modification and accounted for prospectively in accordance with GASB 87.

New Accounting Standards

During the year ended September 30, 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postpones the effective dates of GASB Statements Nos. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, except for the early adoption of GASB Statement No. 89, management 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. Management does not believe that this statement had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 84 is effective for the fiscal year ended 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. Management believes that this statement had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 87 is effective for the fiscal year ended September 30, 2022.

(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

In June 2018, GASB issued 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. Management does not believe that this statement had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 89 is effective for the fiscal year ended September 30, 2022.

In March 2018, GASB issued Statement No. 90, *Majority Equity Interest*s - An Amendment of GASB Statements No. 14 and 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. Management does not believe that this statement had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 90 is effective for the fiscal year ended 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 of 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 debt 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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for the fiscal year ending September 30, 2023.

(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, 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, *Leases*, 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 the 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. Management believes that, among the provisions of GASB Statement No. 92, only those related to leases had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 92 is effective for the fiscal year ended September 30, 2022.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications of the replacement of an IBOR. Management does not believe that this Statement had a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 93 is effective for the 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. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for the fiscal year ending September 30, 2023.

In May 2020, GASB issued Statement No. 96, S*ubscription-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. Management does not believe that this statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for the fiscal year ending September 30, 2023.

(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, 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. Management does not believe that this statement had a material effect on the financial statements. GASB Statement No. 97 is effective for the fiscal year ending September 30, 2022.

In October 2021, GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replaces instances of comprehensive annual financial reports and its acronym in generally accepted accounting principles for state and local governments. Management does not believe this statement had a material effect on the financial statements. GASB Statement No. 98 is effective for the fiscal year ended September 30, 2022.

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.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement.

This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature.

In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Management is evaluating whether implementation of this statement will have a material impact on the financial statements.

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.

(2) Summary of Significant Accounting Policies, continued

New Accounting Standards, continued

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee’s pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Management is evaluating whether 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 December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. State and local governments face a variety of risks that could negatively affect the level of service they provide or their ability to meet obligations as they come due. Although governments are required to disclose information about their exposure to some of those risks, essential information about other risks that are prevalent among state and local governments is not routinely disclosed because it is not explicitly required. 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 defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

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.

If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. The disclosure should include descriptions of the following:

- The concentration or constraint
- Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the financial statements
- Actions taken by the government prior to the issuance of the financial statements to mitigate the risk.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Management is evaluating whether the implementation of this statement will have a material effect on the financial statements.

(3) Receivables

A summary of receivables as of September 30, 2022 and 2021 is as follows:

	2022	2021
Leases and permits	$ 2,345,107	1,549,405
Notes	2,447,755	2,426,385
	4,792,862	3,975,790
Less allowance for doubtful accounts	(3,574,100)	(3,031,823)
	$ 1,218,762	943,967

(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 $3,741,481 and $4,918,313 during the years ended September 30, 2022 and 2021, respectively. Due to CNMI of $282,843 and $44,059 as of September 30, 2022 and 2021, respectively, represents DPL expenses paid by the CNMI which have not been reimbursed.

(5) Leases

Lessee

DPL entered into a lease with Marianas Management Corporation, effective March 1, 2019 and expired on February 28, 2022. Upon expiration, a new lease agreement was executed, effective through February 28, 2025. Following the term, another lease agreement was executed, effective until February 29, 2028. Rent payments are structured in monthly installments as follows: $15,151 through February 28, 2022; $14,772 through February 28, 2023; $15,431 through February 28, 2024; $16,089 through February 28, 2025; and $12,751 thereafter.

DPL entered into a lease with James Manglona, effective September 1, 2021 and expired on February 28, 2022. Upon expiration, a new lease agreement was executed, effective through February 28, 2025. Following the term, another lease agreement was executed, effective until February 29, 2028. Rent payments are structured in monthly installments as follows: $600 through February 28, 2022; $1,000 through February 28, 2025; and $1,500 thereafter.

(5) Leases, continued

DPL entered into a lease with Soni Enterprises, effective July1, 2020 and expired on December 31, 2022. Upon expiration, a new lease agreement was executed and is effective through June 30, 2025. Rent is payable in monthly installments of $1,250 through December 31, 2022 and $1,500 thereafter.

DPL entered into a 60-month lease with Xerox Corporation, effective March 1, 2017, which expired on February 28, 2022, to acquire a copier. Rent was paid in monthly installments of $364. No new lease was executed after the expiration of this lease.

The interest rate used to compute the present value of the future lease payments for lease agreements was 12% which is the same as DPL's incremental borrowing rate.

Total future rental payments are as follows:

Year ending September 30,	
2023	$ 213,997
2024	220,146
2025	198,705
2026	171,012
2027	171,012
Thereafter	71,255
	1,046,127
Less amount representing interest	(265,435)
	$ 780,692

Information related to right-of-use assets and lease liabilities are as follows:

Right-of-use asset	$ 891,622
Accumulated amortization	147,611
Right-of-use asset, net	744,011
Lease liability, current	127,000
Lease liability, non-current	653,692
Total lease liability	$ 780,692

Supplemental information related to DPL's leases follows:

Weighted average remaining lease term	5.26 years
Weighted average discount rate term	12%

(5) Leases, continued

Lessor

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. Total future expected lease payments to be received are as follows:

Year ending September 30,	
2023	$ 3,326,369
2024	3,071,385
2025	2,553,599
2026	2,141,150
2027	1,829,656
Thereafter	29,591,639
	$ 42,513,798

Information related to lease receivable and deferred inflows of resources are as follows:

Lease receivable, current	$ 1,404,477
Lease receivable, non-current	11,709,428
Total lease receivable	13,133,905
Deferred inflows of resources	19,070,517
Lease revenue recognized in FY 2023	(2,017,724)
Interest revenue recognized in FY 2023	(1,966,401)
Deferred inflows of resources, net	$ 15,086,392

Supplemental information related to DPL's leases follows:

Weighted average remaining lease term	17.90 years
Weighted average discount rate term	15.63%

(5) Leases, continued

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. 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 MPLT. DPL has remitted these proceeds to MPLT on April 4, 2024. See Note 11 for additional disclosures.

(6) 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 certain transactions may have violated DPL's constitutional mandate. 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.

(7) 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.

(8) Reclassification

Certain reclassifications have been made to 2021 financial statements to conform to the current year financial statement presentation. These reclassifications had no effect on previously reported net earnings.

(9) Restatement

The financial statements as of and for the year ended September 31, 2021 have been restated to reflect the adoption of GASB Statement No. 87 *Leases*. Adoption is elaborated in Note 2.

The adoption of GASB Statement No. 87 *Leases* impacted the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

(10) COVID-19 Pandemic

Economic uncertainties have arisen as a result of the COVID-19 coronavirus pandemic. DPL expects this matter to negatively impact its future financial results; however, the related financial impact cannot be reasonably estimated at this time. Other financial impacts could occur though such potential impact is unknown.

(11) Date of Management's Review

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through June 27, 2025, which is the date the financial statements were available to be issued.

On January 4, 2024 and April 4, 2024, DPL transferred $500,000 and $4,000,000, respectively, to MPLT in accordance with requirements of the CNMI Constitution. The $1,000,000 discussed in Note 5 was classified as DPL operations revenue in the year received per a memorandum from the former DPL Secretary and is included in the April 4, 2024 transfer.