

**PUBLIC SCHOOL SYSTEM**

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**REPORT ON THE AUDIT OF  
FINANCIAL STATEMENTS  
IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

**Years Ended September 30, 2006 and 2005**

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**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**  
(A Component Unit of the CNMI Government)

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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**September 30, 2006**

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# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

STATE BOARD OF EDUCATION  
PUBLIC SCHOOL SYSTEM  
P.O. BOX 501370  
SAIPAN, MP 96950



Roman C. Benavente  
Chairman

Dino M. Jones  
Vice Chairman

Marja Lee C. Taitano  
Secretary/Treasurer

Members  
Herman T. Guerrero  
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Scott Norman  
Non Public School Rep.

Louvele G. Borja  
Student Representative

Ambrose Bennett  
Teacher Representative

Commissioner of Education  
David M. Borja, D.B.A.

May 31, 2007

To: Members of the Board of Education  
Citizens of the Commonwealth of the Northern Mariana Islands:

The Comprehensive Annual Financial Report of the Public School System (PSS) of the Commonwealth of the Northern Mariana Islands (CNMI) for the year ended September 30, 2006, is hereby submitted as mandated by both local ordinances and territorial statutes. These ordinances and statutes require that the PSS issue annually a report on its financial position and activity and that an independent firm of certified public accountants will audit this report. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds and account groups of the PSS. All disclosures necessary to enable the reader to gain an understanding of the PSS' activities have been included. The comprehensive annual financial report is presented in three sections: introductory, financial, and single audit.

The *introductory section*, which is unaudited, includes this letter of transmittal, an organizational chart, and a list of the PSS' principal elected and appointed officials.

The *financial section* includes the general-purpose financial statements and the combining and individual fund and account group financial statements and schedules, as well as the independent auditor's report on these financial statements and schedules.

The *single audit section* includes the schedule of expenditures of Federal awards, the report on compliance and on internal control, reports on compliance with requirements applicable to each major Federal program, and a schedule of findings and questioned costs. The PSS is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996, the U. S. Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the Commonwealth of the Northern Mariana Islands Single Audit Implementation Act.

The financial reporting entity includes all the funds and account groups of the PSS.

The members of the Board are elected by the public and have decision-making authority. There are three non-voting members of the Board, the non-public school representative, student representative and teacher representative. Although the CNMI collects all taxes, the Board determines how the school system will spend the funds generated for schools.

The CNMI government cannot modify the school system's budget unless a change in the budgetary law is passed by the Legislative branch and concurred by the Executive branch. The CNMI government is not required to finance any deficits of the school system.

For these reasons, the PSS is not fiscally dependent on the CNMI and therefore is recognized as a primary government, as defined by the Governmental Accounting Standards Board. The school system also receives funding from Federal government sources and must comply with the concomitant requirements of the Federal government.

### **FINANCIAL STATEMENTS**

This letter of transmittal should be read in conjunction with the Management's Discussion and Analysis (pages 3-18), which focuses on current activities, accounting changes and currently known facts.

In October 2001, the PSS elected to implement change in governmental financial reporting in accordance with GASB 34 and the Government of the Commonwealth of the Northern Mariana Islands. The format and purpose of these changes are addressed in the notes to the financial statements. We believe this new presentation will provide better information to the user of the Comprehensive Annual Financial Report (CAFR) of Public School System.

### **GOVERNMENTAL STRUCTURE, LOCAL ECONOMIC CONDITION, AND OUTLOOK**

The Commonwealth of the Northern Mariana Islands Public School System is one comprehensive school district serving the entire Commonwealth, including the islands of Saipan, Rota, and Tinian. The system was created through the enactment of Public Law 6-10 in January 1988. For school year 2005-2006, it is serving over 11,600 students from pre-school through 12th grade in 12 elementary schools, 3 middle schools, 5 high schools, and 10 headstart centers.

At the helm of the school system are the CNMI Board of Education and the Commissioner. The Board consists of five voting members and three appointed non-voting representatives. Three voting members are from Saipan; one voting member is from Rota; and one voting member is from Tinian. The public elects the voting members, who serve four-year terms, on an island wide basis. The Commissioner is appointed by the Board and serves as Chief Executive Officer of the system. The Board is responsible for setting policy, while the Commissioner and the administrative team are charged with managing the operations of the school system.

A principal is charged with the responsibility of the total school operations, and administers each individual school. Appropriate instructional and support personnel, based on pupil enrollment, staff the schools. The school principal and faculty work cooperatively with instructional specialists and central administrative staff in developing and implementing effective instructional programs.

The school system has over 1,170 full-time employees and is the largest employer in the government sector. The system has nearly 550 regular classroom teachers, 215 teacher aides, 24 counselors, and 140 school-based support staff, and allots regular classroom teachers at a teacher/student ratio of 1:20 for kindergarten, grades 1, 2, 3; 1:25 for grades 4, 5, 6; 1:30 for grades 7-12. The current teacher:student ratio is 1 teacher for every 23 students. All schools are accredited through the Western Association of Schools and Colleges.

Most students are assigned to and attend their "in zone school" -- the school assigned is based on the parent's or guardian's home address. In some instances, an "out of zone" school may be assigned due to over enrollment at the "in zone school". Transportation is provided for students living at least 1 mile from the assigned school.

The indigenous people of the CNMI are the Chamorro and Carolinian. The official languages of the CNMI are Chamorro, Carolinian, and English. English is the primary language of instruction in the PSS of the CNMI. Chamorro and Carolinian are taught in the PSS as part of a bilingual program. The indigenous people were conquered by the Spaniards in the 16<sup>th</sup> century. The Islands of Saipan, Rota and Tinian were sold to the Germans in the early 20<sup>th</sup> century, taken by Japan in 1914 to 1944, administered as a UN Trust territory until 1976. In 1976, the indigenous people voted to become citizens of the United States, making Saipan, Rota and Tinian part of the Commonwealth of the Northern Mariana Islands.

The Commonwealth has one of the best climates in the world, and the purest air of any first world country. The temperature ranges from 74 degrees to 88 degrees all year round. It also boasts the most attractive tax structure of a U.S. possession. The islands are lush with tropical jungles and scenic beaches and dive locations. There are numerous golf courses where a local can play golf for a fourth of the cost on the Mainland.

The economy of the CNMI is based largely upon tourism and garment manufacturing. Revenue generated from tourism and from garment manufacturing is 25% less than in previous years. The decline in tourism is due to competing destinations and fewer airline seats for tourists. The garment factories are leaving for countries with much lower wage rates. The challenge for the CNMI is to get its economy growing again and promote development that is sustainable.

The quantity and quality of the instructional programs of the school system are directly dependent on the funding provided and on effective management and efficient use of those funds. We recognize the important trust and responsibility we are given in the management of public resources and continue to be vigilant and trustworthy in fulfilling that responsibility. During the course of 2005-2006, we aggressively pursued ways to reduce costs and improve efficiency by eliminating administrative overtime and out-of-system travels, moving purchasing deadlines to earlier dates, and restricting special projects that cross fiscal years. Such efforts have allowed the school system to end the fiscal year 2005-2006 with a strong financial position.

We believe that continuation of these financial management practices coupled with appropriate planning should result in continued strong financial position and provide appropriate fiscal accountability to the public and continued improvement of programs.

### **PUBLIC SCHOOL SYSTEM MISSION AND GOAL**

The Public School System has adopted a mission for the school system and goals and strategies to achieve this mission. Reaching these high standards involve concentrated effort and determination by all employees of the school system. The following list provides the mission, goal, strategies and measurements.

**Mission:** The CNMI Public School System will educate each student to be a responsible and productive citizen who can effectively manage future challenges.

**Goal:** By 2008, 80% of all students at Kindergarten through 8<sup>th</sup> grade will be at or above grade level as measured by CNMI Standards Based Assessment and nationally by the Stanford Achievement Test, 10<sup>th</sup> Edition.

**Strategy:** Reduce the achievement gap between all students' actual achievement and their potential achievement.

Use the Baldrige system of continuous improvement to ensure that decision-making processes are data driven and student focused.

Redefine the magnet program so that it becomes a vehicle to help attain this goal.

Support the use of technology to aid student learning and create additional time for instruction.

**Measurement:** Increase percentage of "under-performing groups" at or above grade level.

**Strategy:** Improve the district's ability to recruit and retain a high quality workforce.

Recruit and retain quality teachers whose vision, potential and abilities support leaving no child behind.

Strive to provide an adequate compensation package for all employees.

Ensure that the school system has an adequate pool of substitute teachers.

Develop a systematic process for getting feedback from staff about job satisfaction, working conditions, and support systems.

Develop strategies to make more time available for teachers to teach and to grow professionally.

Offer training for staff that builds their capacity to improve the achievement of all students (i.e., diversity/poverty training; use of data; assessment training).

Support and expand the recruitment and training of mentors.

Measurement: Decrease in turnover.

Strategy: Improve the internal and external communications within the district.

Develop a system-wide strategic communications plan.

Develop a process for communicating to teachers and other employees about system initiatives.

Measurement: Community survey of school system's publics.

### **Capital Improvements**

The school system's building program has been a high priority of the Board of Education with over 15,000 students expected by 2010. The CNMI government approved House Bill No. 14-62 that allows PSS to build additional classrooms for both Kagman Elementary School and Kagman High School. It also proposes that PSS build a Tinian and a Rota Headstart Center. These projects will be financed by the interest earned on the General Obligation Bond of PSS. Construction began in 2004.

The Board of Education submitted a long-term Capital Improvement Projects Plan to the CNMI government. These projects include an As-Matus Elementary School, a Marpi Secondary School, a second Kagman Elementary School, a Kagman High School expansion and a Southern High School expansion. Also in the proposal are major renovations to the older schools in the CNMI. The total proposed plan had an estimated total cost of \$50,995,988. These projects if approved by the government would be built over the next 7 to 10 years.

### **Funding for the Public Schools**

The cost of public education in the CNMI is financed primarily by the Gross Receipts Tax of business owners and the Chapter II Tax of the individuals. The CNMI has a centralized tax system, and not a localized property tax system, the CNMI government appropriated to PSS \$37.230 million for fiscal year 2006. In conjunction with the \$29.372 million Federal funds, the CNMI allocates its Personnel budget on an impartial preset staffing pattern. The local funding level for the PSS has remained flat since 1999.

### **Enrollments**

The students enrolled in the PSS have increased from 9,500 in 1998 to 11,600 in 2006. This represents an 22% increase in seven years. The teachers have increased from 464 in 1998 to 554 in 2006. Teachers funded by consolidated Federal funds increased from 37 teachers in 1998 to 68 teachers in 2006. Federal funds also paid for 72 Special Education teachers in FY 2006. The Federal funds in 2006 paid for 116 teacher aides as opposed to 51 teacher aides in 1998. The increased payroll for the additional teachers and teacher aides has been financed by additional Federal funds. The Central Office staff was reduced, and additional Federal funds were obtained to finance the growth of the Public School System.

## **Internal Control**

The management of the school system is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the school system are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived. The valuation of costs and benefits requires estimates and judgments by management.

As a recipient of Federal and local financial assistance, the school system is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management. PSS hired a Federal monitor in May 2004 to improve its internal control system.

The CNMI Planning and Budgeting Act mandate the adoption of an annual balanced budget resolution by July 1 each year. If the Budget is not passed by the Legislature and the Governor, PSS operates its budgets on a continuing resolution from fiscal year 2006. Fiscal year 2006, which begins on October 1, 2005 and ends on September 30, 2006, was a budget on the Continuing Resolution from 2005. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget and in funds provided by the Federal, state, and local governments. The final budget, as continued from the fiscal year 2005 (and is the same since 1999), is reflected in the financial section.

The school system also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbered amounts do not lapse at year-end, they continue as outstanding encumbrances until exhausted.

As demonstrated by the statements and schedules included in the financial section of this report, the school system continues to meet its responsibility for sound financial management.

## **General Government Functions and General Fund Balance**

The following schedule presents a summary of the budgets, using the modified accrual basis, of the Commonwealth funds and PSS funds for the fiscal years ended September 30, 1997 thru September 30, 2006.

Primary factors contributing to the total increase in the local and Federal funds are salaries and the related benefit costs. Positions were added to accommodate the continued growth in enrollment. Central support costs decreased as a percent of the total by continued reduction of costs.

Other instructional costs increased primarily due to the expansion of the Advanced Development Institute and Headstart, and other similar programs, established to assist all students in reaching the goals set for the school system.

## **Capital Projects Fund**

Capital Projects were financed by the issuance of a \$15,000,000 Bond, and the matching funds of \$15,000,000 by the CNMI government. In 2006, the Tinian High School construction is completed. The remainder of the \$30 million is for modernization of Rota, Tinian, and Saipan physical plants.

The capital projects are projected on a seven-year cycle. PSS is projecting that a new elementary school will be built in the As-Matuis area. Also contemplated is a secondary school for the Marpi area. Additional classrooms will also have to be built in the Kagman area.

In addition to these major improvements, additional classrooms will have to be added in most of the Saipan schools. Rota and Tinian are also expected to have additional buildings. This comprehensive building program is only in the planning stage at this time. No funds for these projects have been identified at this time. The estimated time for the completion of these projects is fiscal year 2013.

### **Cash Management Policies and Practices**

PSS requests drawdowns from the Federal government as the funds are expended. PSS does earn interest income on its Federal drawdowns on the transfer delay from Bank of Hawaii to Bank of Guam. Bank of Hawaii offers the best earnings potential for short-term deposits. Bank of Guam is used as the bank for transactions due to its banking relationship with the CNMI government. The payroll for the PSS is processed by the CNMI Finance Department.

The Office of the Public Auditors has recommended to PSS that it invest its funds in FDIC insured financial institutions. Since 1998, PSS has placed all its funds in FDIC insured financial institutions.

### **Ri sk Management**

The CNMI government is a self-insured entity. The government has limited its general liability to individuals to \$100,000 by statute. For this reason the government does not maintain any insurance on its buildings, or employees. At some future date, the PSS may insure some of its assets, as an autonomous agency as it is not required to follow the CNMI's government of self-insurance.

PSS does require performance bonds on all its building projects financed by the CNMI government funds.

**Other Information**

Independent Audit Commonwealth statutes and Federal statutes require an annual audit to be performed by independent certified public accountants. The firm of J. Scott Magliari & Company was selected by the Board of Education. In addition to meeting the requirements set forth in Commonwealth statutes, the audit was designed to meet the requirements of the Federal Single Audit Act Amendments of 1996, as required by U. S. Office of Management and Budget's Circular A-133. The auditors used the generally accepted auditing standards of the United States and the government auditing standards as set forth in the Government Accounting Office's Government Auditing Standards. The auditor's report on the general-purpose financial statements and combining and individual fund statements and schedules are included in the financial section of this report.

**Acknowledgments**

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the finance division. We would like to express our appreciation to all members of the division who assisted and contributed to the preparation of this report and to the Board's independent certified public accountants, J. Scott Magliari & Company, for their assistance. The contributions of all are invaluable and sincerely appreciated and clearly reflect the high standards that we have set for ourselves.

We would also like to express our appreciation to the members of the Board of Education for their interest and support in planning and conducting the financial affairs of the school system in a responsible and dedicated manner.

Respectfully submitted,

  
David M. Borja, D.B.A.  
Commissioner of Education

Tim Thornburgh  
Federal Programs Officer

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**  
**PUBLIC SCHOOL SYSTEM**  
(A Component Unit of the CNMI Government)

**PRINCIPAL OFFICIALS**

Year ended September 30, 2006

BOARD OF EDUCATION

	<u>Position</u>	<u>Term Expires</u>
Mr. Roman C. Benavente	Chairperson	2008
Mr. Egredino Jones	Vice Chairman	2008
Ms. Marja Lee Taitano	Secretary/Treasurer	2008
Mr. Herman T. Guerrero	Member	2010
Ms. Lucia Linda Blanco-Maratita, Esq	Member	2010
Mr. Scott Norman	Non Public School Representative	2009
Mr. Ambrose Bennett	Teacher Representative	2008
Ms. Louvella Borja	Student Representative	2008

OFFICERS OF THE SCHOOL SYSTEM

Dr. David M. Borja, D. B. A.	Commissioner of Education
Mr. Charley Kenty	Acting Associate Commissioner for Administration
Ms. Jackie Quitugua	Associate Commissioner for Secondary Education
Mr. Tim Thornburgh	Federal Programs Officer
Ms. Florida A. Grizzard	Acting Director of Finance
Mr. Charley Kenty	Human Resources Officer

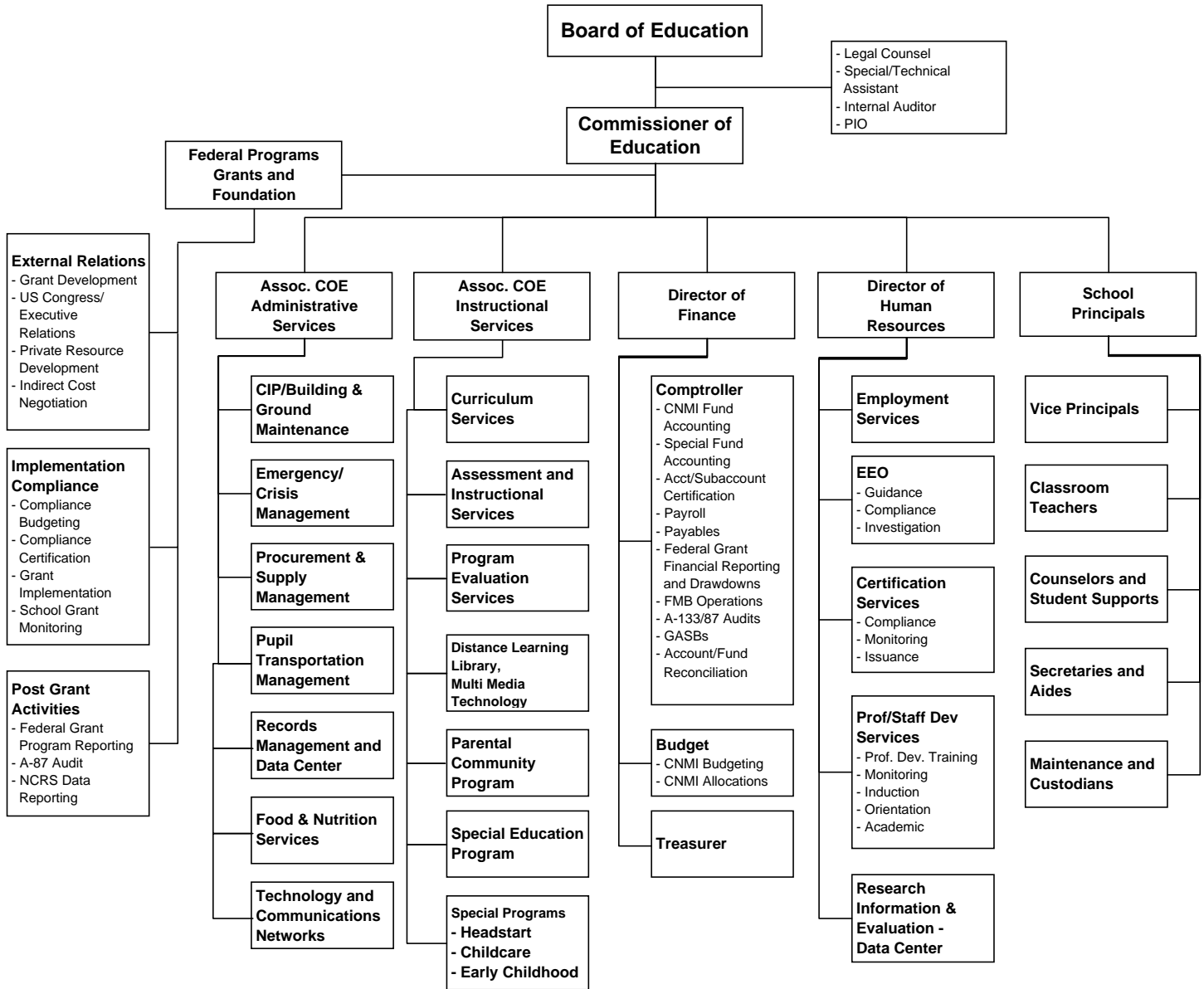
OFFICIALS ISSUING REPORT

Ms. Florida A. Grizzard	Acting Director of Finance
Mr. Tim Thornburgh	Federal Programs Officer

DIVISION ISSUING REPORT

Finance

# Public School System Organization Chart



**PUBLIC SCHOOL SYSTEM**

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**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS**

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**Years Ended September 30, 2006 and 2005**

J. Scott Magliari  
& COMPANY

CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITOR'S REPORT**

The Board of Education  
Commonwealth of the Northern Mariana Islands  
Public School System

I have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregating fund information of the Commonwealth of the Northern Mariana Islands Public School System (PSS), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 2006 and 2005, and for the years then ended. These financial statements are the responsibility of PSS' management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my 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 I plan and perform the audit 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 the PSS' internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate fund information of PSS as of September 30, 2006 and 2005, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with the *Government Auditing Standards*, I have also issued my report dated April 30, 2007 on my consideration of the PSS' internal control over financial reporting and on my 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 my 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 my audit.

The Management's Discussion and Analysis (MD&A) and Budgetary Comparison Information on pages 3 to 18 and pages 23 to 24, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit this information and express no opinion on it.

My audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the PSS basic financial statements. The introductory section, the combining individual non-major fund financial statements and the statistical data are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining individual non-major funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and the statistical data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

Handwritten signature in cursive script that reads "J. Scott Magliari & Company".

Saipan, Commonwealth of the Northern Mariana Islands  
April 30, 2007

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

**Management's Discussion and Analysis**

This section of the CNMI Public School System (PSS) financial report represents our discussion and analysis of the financial performance of the PSS for the year ended September 30, 2006. This information should be read in conjunction with the audited financial statements included in this report (pages 19 to 45).

**Financial Highlights**

The PSS enrollment of 11,718 students in FY 2005 decreased to 11,693 students for FY 2006.

The PSS' net assets increased by \$4,843,566 in FY 2006. This increase was caused by a \$1.2 million increase in current assets, and a \$4.1 million increase in capital assets net of accumulated depreciation. The restatement in fiscal year 2006 pertains to the decrease in accrued annual leave by \$528,720.

As of the close of the fiscal year 2006, the PSS' total net assets is \$85,899,717. This includes the capital assets, net of accumulated depreciation, of \$82,813,078 and capital improvement projects in progress of \$3,540,460.

**Overview of the Financial Statements**

GASB Statement No. 34 requires the presentation the Management Discussion and Analysis (MD&A) and the basic financial statements. The basic financial statements consist of government-wide statements, fund financial statements, notes to the financial statements, and required supplemental sections.

MD&A and the district-wide statements are all new. The rest of the basic financial statements are changed – some in minor ways, some noticeably.

***MD&A***

The MD&A is intended to be a "plain English" narrative section that introduces the basic financial statements. It should give readers an objective and easily readable analysis of the PSS' financial performance for the year.

***District-wide Statements***

The first two financial statements presented are highly condensed and are somewhat based on the accounting model used by private sector businesses.

The district-wide statements are presented on the full accrual basis of accounting and include the statement of net assets and the statement of activities.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**  
**PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

*Statement of Net Assets*

The statement of net assets includes all of the CNMI Public School System assets and liabilities. Assets and liabilities are classified in the order of relative liquidity for assets and due date for liabilities. This statement provides a summary of the school system's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

Net assets which is the difference between the school system's assets and liabilities is one way to measure the district's financial health or position.

- o Over time, increases or decreases in the school system's net assets are an indicator of whether its financial position is improving or deteriorating.

*Statement of Activities*

The statement of activities summarizes the school system's revenues and expenses for the current year. It is based on full accrual accounting rather than the traditional modified accrual. Depreciation of capital assets is recognized as an expense. A net revenue (expense) format is used to indicate to what extent each function is self-sufficient.

***Fund Financial Statements***

The second type of statement included in the basic financial statements is the fund financial statement, which is presented for the school system's governmental funds.

*Balance Sheet*

*Statement of Revenues, Expenditures, and Changes in Fund Balance*

These statements present the governmental funds on the modified accrual basis of accounting, measuring the near term inflows and outflows of financial resources and what is available at year-end to spend in the next fiscal year. The fund financial statements focus on the school system's most significant funds.

*Reconciliation from District-wide to Fund Statements*

Because a different basis of accounting is used in the district-wide statements, reconciliation from the governmental fund financial statements to the district-wide statements is required. The district-wide statements provide information about the school system as an economic unit, while the fund financial statements provide information on the financial resources of the school system's major funds.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

*Statement of Revenues, Expenditures, and Changes in Fund Balance-  
Budget and Actual*

A budgetary comparison statement for the general fund is considered to be required supplementary information and is included in the basic financial statements. The new thing to look for on these schedules is the addition of a column containing the original budget.

The fund financial statements provide more detailed information about the school system's funds, focusing on its most significant or "major" funds - not the school system as a whole. Funds are accounting devices the school system use to keep track of specific sources of funding and spending on particular programs.

The PSS' major funds are:

*General Fund* - Accounts for all financial resources except for those required to be accounted for in another fund. The General Fund is PSS' major operating fund.

*Capital Project Fund* - Accounts for financial resources to be used for the acquisition or construction of all major governmental projects.

*Non-major Funds* - Accounts for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. These were previously reported as Special Revenue Funds.

**CONDENSED COMPARATIVE DATA**

***Assets, Liabilities and Net Assets***

The PSS' net assets, on the district-wide basis, increased by \$4,843,556 from previous year's \$81,056,161 to \$85,899,717 at close of FY 2006. The increase was the result of excess revenues over expenses in FY 2006.

<b>Change in Net</b>			
	<b>FY 2006</b>	<b>FY 2005</b>	<b>FY 2004</b>
Net assets, beginning	\$ 81,056,161	\$ 83,502,629	\$ 83,172,358
Revenues	69,838,002	73,414,824	61,638,298
Expenditures	65,523,166	73,338,189	61,420,275
Excess of revenue over expenditures	4,314,836	76,635	218,023
Current year restatements	528,720	(2,523,103)	112,248
Net assets, ending	\$ 85,899,717	\$ 81,056,161	\$ 83,502,629

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

<b>Net Assets</b>			
	<b>Sept 30, 2006</b>	<b>Sept 30, 2005</b>	<b>Increase (Decrease)</b>
Current assets	\$ 8,292,480	\$ 7,061,281	\$ 1,231,199
Noncurrent assets	86,353,538	82,223,392	4,130,146
<b>Total assets</b>	<b>94,646,018</b>	<b>89,284,673</b>	<b>5,361,345</b>
Current liabilities	4,845,292	3,798,783	1,046,509
Noncurrent liabilities	3,901,009	4,429,729	(528,720)
<b>Total liabilities</b>	<b>8,746,301</b>	<b>8,228,512</b>	<b>517,789</b>
<b>Net Assets</b>	<b>\$ 85,899,717</b>	<b>\$ 81,056,161</b>	<b>\$ 4,843,556</b>
Investment in capital assets Restricted for improvement projects in progress	\$ 82,813,078	\$ 79,066,700	\$ 3,746,378
Unrestricted	(453,821)	(1,167,231)	713,410
<b>Net Assets</b>	<b>\$ 85,899,717</b>	<b>\$ 81,056,161</b>	<b>\$ 4,843,556</b>

<b>Net Assets</b>			
	<b>Sept 30, 2005</b>	<b>Sept 30, 2004</b>	<b>Increase (Decrease)</b>
Current assets	\$ 7,061,281	\$ 8,391,786	\$ (1,330,505)
Noncurrent assets	82,223,392	82,047,324	176,068
<b>Total assets</b>	<b>89,284,673</b>	<b>90,439,110</b>	<b>(1,154,437)</b>
Current liabilities	3,798,783	2,667,002	1,131,781
Noncurrent liabilities	4,429,729	4,269,479	160,250
<b>Total liabilities</b>	<b>8,228,512</b>	<b>6,936,481</b>	<b>1,292,031</b>
<b>Net Assets</b>	<b>\$ 81,056,161</b>	<b>\$ 83,502,629</b>	<b>\$ (2,446,468)</b>
Investment in capital assets Restricted for improvement projects in progress	\$ 79,066,700	\$ 80,139,357	\$ (1,072,657)
Unrestricted	(1,167,231)	1,455,305	(2,622,536)
<b>Net Assets</b>	<b>\$ 81,056,161</b>	<b>\$ 83,502,629</b>	<b>\$ (2,446,468)</b>

Net assets is an indicator of the fiscal health of the School System. Assets for governmental activities exceeded liabilities by \$85,899,717 and \$81,056,161 as of September 30, 2006 and 2005, respectively. The largest component of net assets is invested in capital assets amounting to \$82,813,078 and \$79,066,700 at September 30, 2006 and 2005, respectively.

Net assets increased by \$4,843,556 in fiscal year 2006 and decreased by \$2,446,468 in fiscal year 2005. The increase in net assets in 2006 is due to increase in capital assets net of accumulated depreciation while the decrease in net assets in fiscal year 2005 is primarily due to restatements in fund balance arising from the increase in accumulated depreciation for the change in useful life of vehicles from eight (8) years to five (5) years, and the reversal of revenue recorded for uncollected lapsed funds.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
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(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

**Revenues**

Total revenues for FY 2006 was \$69,838,002 a 4.8% decrease from FY 2005. While total revenues for FY 2005 was \$73,414,824, a 19% increase from FY 2004.

Revenues			
	Sept 30,	Sept 30,	Increase (Decrease)
Program revenues			
Charges for services	\$ 563,917	\$ 140,100	\$ 423,817
Operating grants and contributions	28,340,642	34,635,642	(6,295,000)
	<u>28,904,559</u>	<u>34,775,742</u>	<u>(5,871,183)</u>
General revenues			
Unrestricted CNMI appropriations	37,209,928	37,404,908	(194,980)
Restricted for capital improvements	3,623,424	1,234,174	2,389,250
Miscellaneous, unrestricted	100,091	-	100,091
	<u>40,933,443</u>	<u>38,639,082</u>	<u>2,294,361</u>
	<u>\$ 69,838,002</u>	<u>\$ 73,414,824</u>	<u>\$ (3,576,822)</u>

Revenues			
	Sept 30,	Sept 30,	Increase
Program revenues			
Charges for services	\$ 140,100	\$ 142,745	\$ (2,645)
Operating grants and contributions	34,635,642	23,539,319	11,096,323
	<u>34,775,742</u>	<u>23,682,064</u>	<u>11,093,678</u>
General revenues			
Unrestricted CNMI appropriations	37,404,908	37,796,320	(391,412)
Restricted for capital improvements	1,234,174	19,598	1,214,576
Miscellaneous, unrestricted	-	140,316	(140,316)
	<u>38,639,082</u>	<u>37,956,234</u>	<u>682,848</u>
	<u>\$ 73,414,824</u>	<u>\$ 61,638,298</u>	<u>\$ 11,776,526</u>

Revenues are classified as either general or program.

*Program revenues* are those directly generated by a function or activity of the government entity. Revenue reported as program revenues by PSS pertains to Federal grants, local donations, charges for services and indirect costs allocation.

The decrease in program revenues is primarily due to decrease cash received from Federal grants FY 2006 by \$5,035,148.

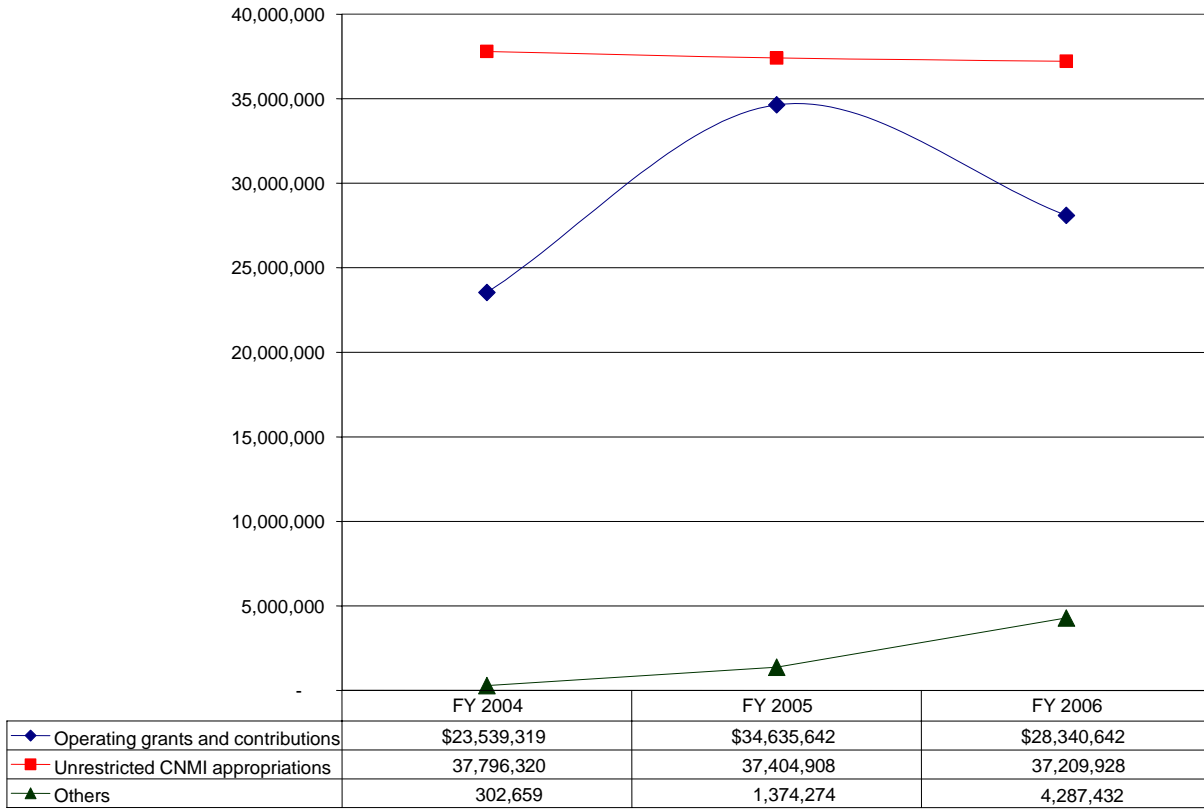
*The general revenue* classification includes appropriations, interest and other income not identifiable to specific activities.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
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Management's Discussion and Analysis

Exhibit I



The chart above shows PSS revenues over the past three years.

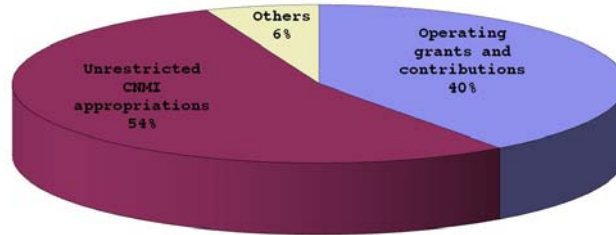
**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
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(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

Exhibit II

**FY 2006 Revenues**



Unrestricted CNMI appropriations constitute 54% of FY 2006 revenues and are the highest source of revenue for the PSS.

Operating grants and contributions, which primarily consist of Federal grants, is the second highest source of PSS revenue. Federal grants exhibited a significant decrease from prior year.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
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Management's Discussion and Analysis

**Expenses**

Total district-wide expenses by function were as follows:

<b>Expenses</b>			
	<b>Sept 30, 2006</b>	<b>Sept 30, 2005</b>	<b>Increase (Decrease)</b>
<b>Instruction:</b>			
Regular	\$ 28,147,138	\$ 28,693,622	\$ (546,484)
Special education	9,099,768	10,203,335	(1,103,567)
Co-curricular	1,319,477	1,481,950	(162,473)
Student services	16,183,036	20,513,093	(4,330,057)
	<u>54,749,419</u>	<u>60,892,000</u>	<u>(6,142,581)</u>
<b>Support services:</b>			
General administration	2,277,927	3,035,350	(757,423)
School administration	3,948,472	4,789,489	(841,017)
Other support	95,485	179,188	(83,703)
Community	2,151,237	2,633,160	(481,923)
Individual programs	1,379,853	779,967	599,886
Depreciation - unallocated	920,773	1,029,035	(108,262)
	<u>10,773,747</u>	<u>12,446,189</u>	<u>(1,672,442)</u>
<b>Total governmental activities</b>	<b>\$ 65,523,166</b>	<b>\$ 73,338,189</b>	<b>\$ (7,815,023)</b>

<b>Expenses</b>			
	<b>Sept 30, 2005</b>	<b>Sept 30, 2004</b>	<b>Increase (Decrease)</b>
<b>Instruction:</b>			
Regular	\$ 28,693,622	\$ 27,952,642	\$ 740,980
Special education	10,203,335	9,830,008	373,327
Co-curricular	1,481,950	1,380,742	101,208
Student services	20,513,093	10,511,051	10,002,042
	<u>60,892,000</u>	<u>49,674,443</u>	<u>11,217,557</u>
<b>Support services:</b>			
General administration	3,035,350	2,846,402	188,948
School administration	4,789,489	4,445,610	343,879
Other support	179,188	183,760	(4,572)
Community	2,633,160	2,316,656	316,504
Individual programs	779,967	1,017,065	(237,098)
Depreciation - unallocated	1,029,035	936,339	92,696
	<u>12,446,189</u>	<u>11,745,832</u>	<u>700,357</u>
<b>Total governmental activities</b>	<b>\$ 73,338,189</b>	<b>\$ 61,420,275</b>	<b>\$ 11,917,914</b>

Total governmental activities expenses decreased by \$7,815,023 or 11% as compared to FY 2005. This is due to lower Federal grants expenditures in FY 2006.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
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Management's Discussion and Analysis

**OVERALL FINANCIAL POSITION**

The overall financial position of the PSS as shown in the fund financial statements (balance sheets and statements of revenues, expenditures, and changes in fund balance) improved by \$535,157 or 8% from last year's decline by \$1,046,366 or 14%.

**FUND ANALYSIS**

	Fund Balance			
	General Fund	Capital		Total
	Projects Fund	Non-Major Fund		
Fund balance, 9/30/05	\$ 2,189,410	\$ 3,142,141	\$ 1,087,639	\$ 6,419,190
Fund balance, 9/30/06	2,913,989	2,404,904	565,140	5,884,033
Increase (decrease) in fund balance	\$ 724,579	\$ (737,237)	\$ (522,499)	\$ (535,157)
Percentage change	33%	-23%	-48%	-8%

The general revenues exceeded expenses by \$724,579, while non-major funds' expenses exceeded revenues resulting to a \$522,499 decrease in fund balance. Capital project funds decreased by \$737,237, the net effect of additional capital improvement projects (CIP) in 2006 net of complete CIP transferred to fixed assets.

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**GENERAL FUND BUDGETARY HIGHLIGHTS**

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
REVENUES	\$ -	\$ -	\$ -	\$ 100,091	\$ 100,091
Total revenues	-	-	-	100,091	100,091
EXPENDITURES:					
Current operations:					
Instructional programs:					
Regular	28,384,076	-	28,384,076	28,131,722	252,354
Special	2,773,357	-	2,773,357	2,556,952	216,405
Co-curricular	1,008,977	-	1,008,977	950,048	58,929
Supporting services:					
General administration	370,074	-	370,074	318,564	51,510
School administration	4,112,889	-	4,112,889	3,836,072	276,817
Individual programs	575,565	-	575,565	590,778	(15,213)
Other	-	-	-	-	-
Total expenditures	37,224,938	-	37,224,938	36,384,136	840,802
Capital outlays:					
Equipment and vehicles	-	-	-	135,549	(135,549)
Construction in progress	-	-	-	65,755	(65,755)
	-	-	-	201,304	(201,304)
Deficiency of revenues over expenditures	(37,224,938)	-	(37,224,938)	(36,485,349)	739,589
Other financing sources:					
Operating transfers in	37,224,938	-	37,224,938	37,209,928	(15,010)
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ -	\$ 724,579	\$ 724,579

Initially the PSS budget from CNMI appropriations was reduced by \$2,000,000 but this was subsequently reinstated.

Total appropriations exceeded total expenditures for fiscal year 2006, primarily due to approximately \$500 thousand encumbered for textbooks from the textbook relief appropriation and \$225 thousand encumbered for contracts pertaining to schools operations.

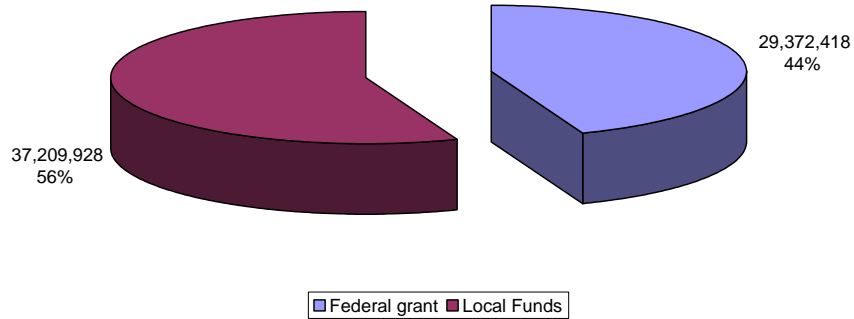
**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

Exhibit III

**PSS Budget FY 2006**



**Federal and Local Budget Review**

<u>Year</u>	<u>Total Funding</u>	<u>Federal Funding</u>		<u>Local Funding</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
1997	\$53,763,700	\$12,000,000	22%	\$41,763,700	78%
1998	55,100,000	13,000,000	24%	42,100,000	76%
1999	53,730,342	16,000,000	30%	37,730,342	70%
2000	53,280,342	17,000,000	32%	36,280,342	68%
2001	54,230,342	17,000,000	31%	37,230,342	69%
2002	55,230,342	18,000,000	33%	37,230,342	67%
2003	60,230,342	23,000,000	38%	37,230,342	62%
2004	60,730,342	23,500,000	39%	37,230,342	61%
2005	63,032,129	25,801,787	41%	37,230,342	59%
2006	66,582,346	29,372,418	44%	37,209,928	56%

The contribution of local funding to the total funding has varied between 56% to 78% for the 10-year period from 1997 to 2006. Federal funding continue to increase over the past ten years while local funding significantly declined from \$42 million in 1998 to \$37 million in 2001 and has remained in that level until 2006.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
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(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

**CAPITAL ASSETS**

The PSS' investment in capital assets as of September 30, 2006 is \$82,813,078 net of accumulated depreciation. Depreciation expense for the year was \$1,563,714.

<b>Capital Assets</b>			
	<b>Sept 30, 2006</b>	<b>Sept 30, 2005</b>	<b>Sept 30, 2004</b>
Capital assets not depreciated			
Land	\$ 36,647,850	\$ 36,647,850	\$ 36,647,850
Capital assets, net of accumulated depreciation			
Building and improvements	44,211,039	40,659,778	41,416,117
Vehicle	1,449,278	1,350,107	1,332,386
Others	504,911	408,965	743,004
	<u>46,165,228</u>	<u>42,418,850</u>	<u>43,491,507</u>
	<u>\$ 82,813,078</u>	<u>\$ 79,066,700</u>	<u>\$ 80,139,357</u>

More detailed information on capital assets is on Note 3 in the notes to the financial statements.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

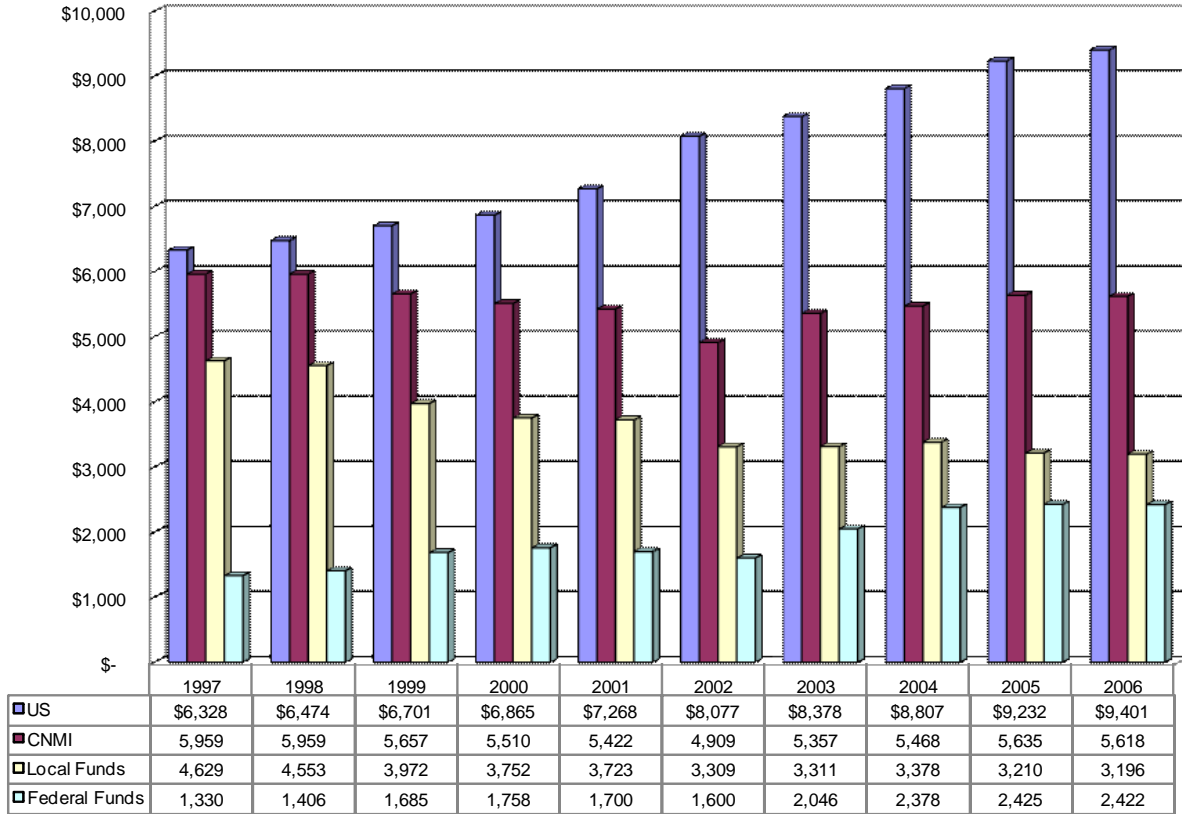
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

**OTHER MATTERS**

Exhibit IV

**COST PER CHILD**



**Public School Cost per Child: Comparing CNMI to US Average**

Key: National - total costs for 1997-2001 are actual expenditures (Source: NCES)  
 National - total costs for 2002-2006 are projections (Source: NCES)  
 CNMI - total costs for 1997-2005 are actual expenditures (Source: PSS FBO)  
 CNMI - total costs for 2006 are projections (Source: PSS FBO)

The enrollment in 1997 was approximately 9,200 students while the enrollment in 2006 was 11,693 students. With this increase in enrollment and local funding remaining constant, locally funded cost per child dropped from \$4,629 in 1997 to \$3,196 in 2006.

The total cost per child in CNMI in 2006 of \$5,618 is \$3,783 or 40% lower than the \$9,401 cost per child in the US.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
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In SY 1997-1998 PSS operated 14 schools with a total annual budget of \$41.7 million and approximately 9,200 students. Since 1998, PSS has added six schools: Dandan Elementary School, Kagman Elementary and High Schools, Sinapalo Elementary School, ChaCha Middle School and Saipan Southern High School.

In SY 1999-2006, PSS operated 20 schools with approximately 11,000 students with the same \$37 million annual budget. These new schools received their budgets from existing schools. The cost for these schools in FY 2006 is \$8.0 million. Approximately \$2.0 million is the reduction in total budget due to transferring teachers from the old schools to the new schools. However, all the general and administration costs of these schools were financed by reducing Central Office and other existing schools' budgets. Some of the teacher costs of these new schools were financed by reallocating Federal funds. Under the new budget rules passed by the legislature, the Commissioner of Education is the responsible spending authority. This flexibility has enabled the PSS to respond to any school's needs without the permission of the CNMI government.

All emergency repairs and maintenance of all schools are handled by the Commissioner's Office. Urgent request for a new teacher is handled by local transfer from another school, or by requesting the Federal Programs Office to provide the necessary funds.

**Teacher Certification and "No Child Left Behind"**

The PSS has increased its requirements for its teaching staff. Except for a few vocational teachers, all teachers have bachelor degrees. PSS is working with Northern Marianas College to provide specific endorsements for all teachers teaching out of their field. In approximately five years, all teachers in the system will be teaching in their specialized fields.

With the passage of the "No Child Left Behind" Act (the largest educational act ever passed in the USA), the PSS will respond by continuously upgrading all its staff and facilities and equipment.

The PSS since 1998 has required that all classroom teachers total of 511 must, at a minimum, possess a bachelor's degree, fully state certified, and has passed rigorous state examination evidencing core subject knowledge to teach in the CNMI PSS.

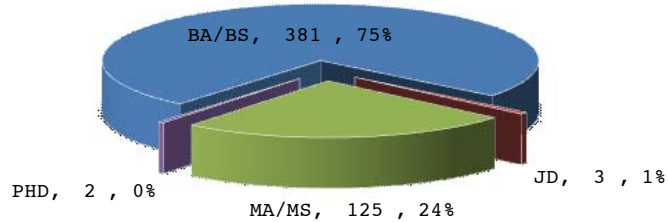
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

EXHIBIT V

Classroom Teacher Degree Count



Two years ago only 16% of our teacher had taken and passed their PRAXIS I and PRAXIS II core content knowledge test. Today 63% have attained HQT status in accordance with the NCLB Act of 2001 and BOE policy by:

1. Possessing a bachelor's degree or higher;
2. Attained full state certification; and
3. Passed PRAXIS I and PRAXIS II core content knowledge tests.

PSS can project, based on current trend, that 76% of PSS' teachers will be HQT by the beginning of next school year, 90% by SY08-09 and 100% by SY09-10. Once teachers pass and become HQT, they will receive the HQT salary adjustments.

**Headstart and Special Education**

The Headstart Program of the CNMI has been generously supported by Local funds. New sites for Headstart Centers are donated by the CNMI government and the construction of Headstart facilities are funded by both local and federal contributions. The majority of the operating and training costs have been supplied by Federal funds. Headstart has been upgrading its support and teaching staff to comply with Federal policies.

The Special Education costs are primarily funded with Federal funds, however Local funds have been provided for teachers and teacher aides. The Special Education Program is solvent, and provides the CNMI with the necessary teachers and provides the program with highly trained specialists such as psychologists, audiologist, speech therapist, occupational and physical therapists. Unfortunately, the retention rate for the related specialists has not been favorable. This is due to the nationwide shortage of the various specialists. The PSS has requested the legislature to allow hiring of non-US citizens to fill these positions.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
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(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

**Debt Outstanding**

The PSS does not record any debt associated with the Bond on its balance sheet. Therefore, PSS has no Long-term debt and it relies on the CNMI government to finance any major capital expenditures.

**Economic Factors**

The Board anticipates an increased enrollment over the next several years and will need continued increases in classroom space, teachers, and equipment. Local funding is a major source of income for the Board. Therefore, the CNMI economic outlook directly affects that of the school system. The Commonwealth's two major industries, garment manufacturing and tourism, have been facing major challenges since 1998. The CNMI government has maintained and exceeded its constitutional requirement of 15% of its total budget for public education at elementary and secondary levels. It is impossible to predict the economic outlook of the CNMI, but the PSS has weathered a particularly bad storm over the last seven years without the massive layoffs and deficits of many of the states in the US. It has significantly increased its physical plant in spite of the poor economy. It has continued to teach more students with the same total payroll. Granted the Federal funds have helped. The local funds provide \$37 million while the Federal provides approximately \$27 million. The Board, the Commissioner and the staff are aware of the economic pitfalls. All of these factors, as well as the Commonwealth's budget difficulties, were considered in preparing the Board's budget for the 2007 fiscal year. The Board's budget of \$50 million for FY 2007 was created to upgrade the older schools' electrical systems, and to upgrade the structural safety of the older schools. PSS will cut expenditures and reduce or eliminate lower priority services, but it will protect core instructional programs and the personnel associated with them.

**Requests for Information**

This report is intended to provide a summary of the financial condition of the Public School System of the Commonwealth of the Northern Mariana Islands. Questions or requests for additional information should be addressed to:

Tim Thornburgh  
Federal Programs Officer  
PO Box 501370  
Saipan, MP 96950

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**  
**PUBLIC SCHOOL SYSTEM**  
(A Component Unit of the CNMI Government)

Statements of Net Assets - Governmental Activities  
September 30, 2006 and 2005

	2006	2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,659,453	\$ 2,642,996
Receivable from CNMI	2,706,871	1,472,850
Receivable from Federal agencies	1,551,277	1,302,440
Other receivables	43,392	1,302,656
Advances, net	331,487	340,339
Total current assets	8,292,480	7,061,281
Noncurrent assets:		
Capital improvement projects in progress	3,540,460	3,156,692
Capital assets, net of accumulated depreciation	82,813,078	79,066,700
Total current assets	86,353,538	82,223,392
<b>TOTAL ASSETS</b>	<b>\$ 94,646,018</b>	<b>\$ 89,284,673</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accrued payroll and others	\$ 1,571,260	\$ 1,719,385
Vouchers payable	1,000,475	621,977
Deferred revenue	1,928,989	1,454,793
Other liabilities	344,568	2,628
Total current liabilities	4,845,292	3,798,783
Noncurrent liabilities:		
Accrued leave liability	3,901,009	4,429,729
<b>TOTAL LIABILITIES</b>	<b>\$ 8,746,301</b>	<b>\$ 8,228,512</b>
<b>NET ASSETS</b>		
Restricted for:		
Investment in capital assets	\$ 82,813,078	\$ 79,066,700
Capital improvement projects in progress	3,540,460	3,156,692
Unrestricted	(453,821)	(1,167,231)
<b>TOTAL NET ASSETS</b>	<b>\$ 85,899,717</b>	<b>\$ 81,056,161</b>

See accompanying notes to basic financial statements.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**  
(A Component Unit of the CNMI Government)

Statements of Activities  
For the Years Ended September 30, 2006 and 2005

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Total	
				2006	2005
Governmental activities:					
Instruction:					
Regular	\$ 28,147,138	\$ -	\$ -	\$(28,147,138)	\$(28,693,622)
Special education	9,099,768	-	6,827,829	(2,271,939)	(2,779,041)
Co-curricular	1,319,477	-	368,769	(950,708)	(995,489)
Student services	<u>16,183,036</u>	<u>563,917</u>	<u>17,037,171</u>	<u>1,418,052</u>	<u>(102,942)</u>
Total instruction	<u>54,749,419</u>	<u>563,917</u>	<u>24,233,769</u>	<u>(29,951,733)</u>	<u>(32,571,094)</u>
Support services:					
General administration	2,277,927	-	1,273,349	(1,004,578)	(502,149)
School administration	3,948,472	-	153,502	(3,794,970)	(4,563,044)
Other support	95,485	-	-	(95,485)	(179,188)
Community	2,151,237	-	2,151,237	-	-
Individual programs	1,379,853	-	528,785	(851,068)	282,063
Depreciation - unallocated	<u>920,773</u>	<u>-</u>	<u>-</u>	<u>(920,773)</u>	<u>(1,029,035)</u>
Total support services	<u>10,773,747</u>	<u>-</u>	<u>4,106,873</u>	<u>(6,666,874)</u>	<u>(5,991,353)</u>
Total governmental activities	<u>\$ 65,523,166</u>	<u>\$ 563,917</u>	<u>\$ 28,340,642</u>	<u>\$(36,618,607)</u>	<u>\$(38,562,447)</u>
				37,209,928	37,404,908
				3,623,424	1,234,174
				<u>100,091</u>	<u>-</u>
			Subtotal, general revenues	<u>40,933,443</u>	<u>38,639,082</u>
			Changes in Net Assets	4,314,836	76,635
			Current year restatement	528,720	(2,523,103)
			Net assets - beginning	<u>81,056,161</u>	<u>83,502,629</u>
			Net assets - ending	<u>\$ 85,899,717</u>	<u>\$ 81,056,161</u>

See accompanying notes to basic financial statements.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**  
(A Component Unit of the CNMI Government)

Balance Sheets  
Governmental Funds  
September 30, 2006 and 2005

	General Fund	Capital Projects Fund	Non-maj or Funds	Total Governmental Funds 2006	2005
<u>ASSETS</u>					
Current Assets:					
Cash and cash equivalents	\$ 3,659,453	\$ -	\$ -	\$ 3,659,453	\$ 2,642,996
Receivables from CNMI	2,693,640	-	13,231	2,706,871	1,472,850
Receivables from Federal agencies	-	-	1,551,277	1,551,277	1,302,440
Other receivables	43,392	-	-	43,392	1,302,656
Advances, net	181,732	-	149,755	331,487	340,339
Due from other funds	169,294	-	2,180,483	2,349,777	2,994,897
	6,747,511	-	3,894,746	10,642,257	10,056,178
Capital improvement projects in progress	-	2,436,845	-	2,436,845	3,156,692
 TOTAL ASSETS	 \$ 6,747,511	 \$ 2,436,845	 \$ 3,894,746	 \$ 13,079,102	 \$ 13,212,870
<u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES:					
Accrued payroll and others	\$ 1,571,260	\$ -	\$ -	\$ 1,571,260	\$ 1,719,385
Vouchers payable	1,000,099	-	376	1,000,475	621,977
Deferred revenue	-	-	1,928,989	1,928,989	1,454,793
Due to other funds	917,595	31,941	1,400,241	2,349,777	2,996,374
Other liabilities	344,568	-	-	344,568	1,151
	3,833,522	31,941	3,329,606	7,195,069	6,793,680
 TOTAL LIABILITIES	 3,833,522	 31,941	 3,329,606	 7,195,069	 6,793,680
FUND BALANCES:					
Reserved for:					
Capital improvement projects	-	2,404,904	-	2,404,904	3,142,141
Unreserved	2,913,989	-	565,140	3,479,129	3,277,049
 TOTAL FUND BALANCES	 2,913,989	 2,404,904	 565,140	 5,884,033	 6,419,190
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 6,747,511	 \$ 2,436,845	 \$ 3,894,746		

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

The cost of capital assets is	\$ 93,588,181		
Accumulated depreciation is	10,775,103	82,813,078	79,066,700

Capital improvement projects funded by the CNMI Government reported as current financial resources in the governmental fund balance sheets.

	1,103,615	-
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Long-term liability that are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term at year-end pertains to:			
Annual leave liability		(3,901,009)	(4,429,729)

Total net assets - governmental activities	\$ 85,899,717	\$ 81,056,161
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See accompanying notes to basic financial statements.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**  
**PUBLIC SCHOOL SYSTEM**  
(A Component Unit of the CNMI Government)

Statements of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds  
For the Years Ended September 30, 2006 and 2005

	General Fund	Capital Projects Fund	Non-Maj or Funds	Total Governmental Funds	
				2006	2005
<b>REVENUES:</b>					
Federal	\$ -	\$ -	\$ 27,067,293	\$ 27,067,293	\$ 32,102,441
Local	100,091	3,623,424	1,273,349	4,996,864	3,735,692
Charges for services	-	-	563,917	563,917	140,100
TOTAL REVENUES	100,091	3,623,424	28,904,559	32,628,074	35,978,233
<b>EXPENDITURES:</b>					
Current operations:					
Instructional programs:					
Regular	28,131,722	-	-	28,131,722	28,686,004
Special	2,556,952	-	6,345,876	8,902,828	10,165,763
Co-curricular	950,048	-	368,769	1,318,817	1,480,630
Student services	-	-	16,142,056	16,142,056	20,641,377
Total instructional programs	31,638,722	-	22,856,701	54,495,423	60,973,774
Supporting services:					
General administration	318,564	-	1,917,675	2,236,239	2,850,543
School administration	3,836,072	-	25,433	3,861,505	4,672,944
Individual programs	590,778	-	528,785	1,119,563	1,656,265
Other	-	95,485	-	95,485	179,188
Total supporting services	4,745,414	95,485	2,471,893	7,312,792	9,358,940
Community services	-	-	2,151,237	2,151,237	2,633,160
Capital outlays:					
Equipment and vehicles	135,549	-	687,234	822,783	-
Construction in progress	65,755	4,265,176	1,259,993	5,590,924	-
Total capital outlays	201,304	4,265,176	1,947,227	6,413,707	-
TOTAL EXPENDITURES	36,585,440	4,360,661	29,427,058	70,373,159	72,965,874
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(36,485,349)	(737,237)	(522,499)	(37,745,085)	(36,987,641)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	37,209,928	-	-	37,209,928	37,224,908
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	724,579	(737,237)	(522,499)	(535,157)	237,267
CURRENT YEAR RESTATEMENTS	-	-	-	-	(1,322,270)
FUND BALANCE, beginning of year	2,189,410	3,142,141	1,087,639	6,419,190	7,504,193
FUND BALANCE, end of the year	\$ 2,913,989	\$ 2,404,904	\$ 565,140	\$ 5,884,033	\$ 6,419,190

See accompanying notes to basic financial statements.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**  
**PUBLIC SCHOOL SYSTEM**  
(A Component Unit of the CNMI Government)

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures  
And Changes in Fund Balance with the District-wide Statement of Activities  
For the Years Ended September 30, 2006 and 2005

	2006	2005
Total net change in fund balances - governmental funds	\$ (535,157)	\$ 237,267
Amounts reported for governmental activities in the statement of activities is different because:		
Certain activities in the capital improvement projects fund are reported in statement of changes in fund balance.	1,103,615	31,683
Accrual of vacation leave	-	(160,250)
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.</p>		
Capital outlays	\$ 5,310,092	
Depreciation expense	(1,563,714)	(32,065)
	3,746,378	
Changes in net assets of governmental activities	\$ 4,314,836	\$ 76,635

See accompanying notes to basic financial statements.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Statement of Revenues, Expenditures  
and Changes in Fund Balance  
Budget (GAAP Basis) and Actual - General Fund  
For the Year Ended September 30, 2006

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
REVENUES	\$ -	\$ -	\$ -	\$ 100,091	\$ 100,091
Total revenues	-	-	-	100,091	100,091
EXPENDITURES:					
Current operations:					
Instructional programs:					
Regular	28,384,076	-	28,384,076	28,131,722	252,354
Special	2,773,357	-	2,773,357	2,556,952	216,405
Co-curricular	1,008,977	-	1,008,977	950,048	58,929
Total instructional programs	32,166,410	-	32,166,410	31,638,722	527,688
Supporting services:					
General administration	370,074	-	370,074	318,564	51,510
School administration	4,112,889	-	4,112,889	3,836,072	276,817
Individual programs	575,565	-	575,565	590,778	(15,213)
Other	-	-	-	-	-
Total supporting programs	5,058,528	-	5,058,528	4,745,414	313,114
Capital outlays:					
Equipment and vehicles	-	-	-	135,549	(135,549)
Construction in progress	-	-	-	65,755	(65,755)
Total capital outlay	-	-	-	201,304	(201,304)
Total expenditures	37,224,938	-	37,224,938	36,585,440	639,498
Deficiency of revenues over expenditures	(37,224,938)	-	(37,224,938)	(36,485,349)	739,589
Other financing sources:					
Operating transfers in	37,224,938	-	37,224,938	37,209,928	(15,010)
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ -	\$ 724,579	\$ 724,579

*The \$724,579 favorable budget variance pertains to obligated textbook relief appropriations of approximately \$500 thousand and \$225 thousand obligated for various contracts for school administration and operations.*

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**  
**PUBLIC SCHOOL SYSTEM**  
(A Component Unit of the CNMI Government)

General Fund  
Statements of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended September 30, 2006  
(With Comparative Actual Amounts for the fiscal year ended September 30, 2005)

	2006		Variance Favorable (Unfavorable)	2005
	Budget	Actual		Actual
REVENUES	\$ -	\$ 100,091	\$ 100,091	\$ -
Total revenues	-	100,091	100,091	-
EXPENDITURES:				
Current operations:				
Instructional programs:				
Regular	28,384,076	28,131,722	252,354	28,686,004
Special	2,773,357	2,556,952	216,405	2,741,469
Co-curricular	1,008,977	950,048	58,929	994,169
Total instructional programs	<u>32,166,410</u>	<u>31,638,722</u>	<u>527,688</u>	<u>32,421,642</u>
Supporting services:				
General administration	370,074	318,564	51,510	355,230
School administration	4,112,889	3,836,072	276,817	4,446,499
Individual programs	575,565	590,778	(15,213)	594,235
Other	-	-	-	-
Total supporting programs	<u>5,058,528</u>	<u>4,745,414</u>	<u>313,114</u>	<u>5,395,964</u>
Capital outlays:				
Equipment and vehicles	-	135,549	(135,549)	-
Construction in progress	-	65,755	(65,755)	-
Total capital outlay	<u>-</u>	<u>201,304</u>	<u>(201,304)</u>	<u>-</u>
Total expenditures	<u>37,224,938</u>	<u>36,585,440</u>	<u>639,498</u>	<u>37,817,606</u>
Deficiency of revenues over expenditures	(37,224,938)	(36,485,349)	739,589	(37,817,606)
Other financing sources :				
Operating transfers in	<u>37,224,938</u>	<u>37,209,928</u>	<u>(15,010)</u>	<u>37,224,908</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ 724,579</u>	<u>\$ 724,579</u>	<u>\$ (592,698)</u>

*The \$724,579 favorable budget variance pertains to obligated textbook relief appropriations of approximately \$500 thousand and \$225 thousand obligated for various contracts for school administration and operations.*

See accompanying notes to basic financial statements.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Combining Balance Sheet - Non-major Funds  
September 30, 2006 and 2005

<u>ASSETS</u>	Federal Grants Fund	Local Donations Fund	CNMI Grants Fund	Indi rect Costs Fund	<u>Total</u>	
					2006	2005
Receivables from CNMI	\$ -	\$ (1,508)	\$ 14,739	\$ -	\$ 13,231	\$ 13,231
Receivables from Federal agencies	1,158,274	(7,112)	-	400,115	1,551,277	1,302,440
Advances, net	149,755	-	-	-	149,755	92,294
Due from other funds	<u>1,965,544</u>	<u>184,020</u>	<u>-</u>	<u>30,919</u>	<u>2,180,483</u>	<u>1,261,007</u>
	<u>\$ 3,273,573</u>	<u>\$ 175,400</u>	<u>\$ 14,739</u>	<u>\$ 431,034</u>	<u>\$ 3,894,746</u>	<u>\$ 2,668,972</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Vouchers payable	\$ 376	\$ -	\$ -	\$ -	\$ 376	\$ 352
Accrued payroll and others	-	-	-	-	-	58,860
Deferred revenue	1,858,637	41,084	-	29,268	1,928,989	31,474
Due to other funds	<u>-</u>	<u>498,922</u>	<u>155,161</u>	<u>746,158</u>	<u>1,400,241</u>	<u>1,490,647</u>
Total liabilities	1,859,013	540,006	155,161	775,426	3,329,606	1,581,333
Fund balances (deficit):						
Reserved for encumbrances	<u>1,414,560</u>	<u>(364,606)</u>	<u>(140,422)</u>	<u>(344,392)</u>	<u>565,140</u>	<u>1,087,639</u>
	<u>\$ 3,273,573</u>	<u>\$ 175,400</u>	<u>\$ 14,739</u>	<u>\$ 431,034</u>	<u>\$ 3,894,746</u>	<u>\$ 2,668,972</u>

See accompanying notes to basic financial statements.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**  
(A Component Unit of the CNMI Government)

Combining Statements of Revenues, Expenditures, and Changes in Fund Balance  
Non-major funds  
For the Years Ended September 30, 2006 and 2005

	Federal Grants	Local Donations	CNMI Grants	Indi rect Costs	Total Non-maj or funds	
	Fund	Fund	Fund	Fund	2006	2005
<b>REVENUES:</b>						
Federal	\$ 27,067,293	\$ -	\$ -	\$ -	\$ 27,067,293	\$ 32,102,441
Other local	-	246,603	-	1,026,746	1,273,349	2,533,201
Charge for services	-	563,917	-	-	563,917	140,100
<b>TOTAL REVENUES</b>	<b>27,067,293</b>	<b>810,520</b>	<b>-</b>	<b>1,026,746</b>	<b>28,904,559</b>	<b>34,775,742</b>
<b>EXPENDITURES:</b>						
Current operations:						
Instructional programs:						
Regular	-	-	-	-	-	-
Special	6,345,876	-	-	-	6,345,876	7,424,294
Co-curricular	368,769	-	-	-	368,769	486,461
Student services	15,699,966	442,090	-	-	16,142,056	20,641,377
<b>Total instructional programs</b>	<b>22,414,611</b>	<b>442,090</b>	<b>-</b>	<b>-</b>	<b>22,856,701</b>	<b>28,552,132</b>
Supporting services:						
General administration	-	884,717	-	1,032,958	1,917,675	2,495,313
School administration	25,433	-	-	-	25,433	226,445
Individual programs	528,785	-	-	-	528,785	1,062,030
Other	-	-	-	-	-	179,188
<b>Total supporting programs</b>	<b>554,218</b>	<b>884,717</b>	<b>-</b>	<b>1,032,958</b>	<b>2,471,893</b>	<b>3,962,976</b>
Community services	2,151,237	-	-	-	2,151,237	2,633,160
Capital outlays:						
Equipment and vehicles	687,234	-	-	-	687,234	-
Construction in progress	1,259,993	-	-	-	1,259,993	-
<b>Total capital outlays</b>	<b>1,947,227</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,947,227</b>	<b>-</b>
<b>TOTAL EXPENDITURES</b>	<b>27,067,293</b>	<b>1,326,807</b>	<b>-</b>	<b>1,032,958</b>	<b>29,427,058</b>	<b>35,148,268</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>-</b>	<b>(516,287)</b>	<b>-</b>	<b>(6,212)</b>	<b>(522,499)</b>	<b>(372,526)</b>
<b>FUND BALANCE, beginning of the year</b>	<b>1,414,560</b>	<b>151,681</b>	<b>(140,422)</b>	<b>(338,180)</b>	<b>1,087,639</b>	<b>1,460,165</b>
<b>FUND BALANCE, end of the year</b>	<b>\$ 1,414,560</b>	<b>\$ (364,606)</b>	<b>\$ (140,422)</b>	<b>\$ (344,392)</b>	<b>\$ 565,140</b>	<b>\$ 1,087,639</b>

See accompanying notes to basic financial statements.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**  
**PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Notes to the Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies

The Commonwealth of the Northern Mariana Islands (CNMI) Public School System (PSS), a component unit of the CNMI, was established as a public non-profit corporation by the CNMI Public Law 6-10 (The Education Act of 1988), effective October 25, 1988, and began operations on October 1, 1988.

The PSS basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing US GAAP for state and local governments through its pronouncements (Statements and Interpretations).

A. Reporting Entity

PSS, as the state educational agency for pre-school, elementary and secondary education programs in the CNMI is under the direction of the CMNI Board of Education (BOE), which consists of five voting members elected at-large on a nonpartisan basis: one from Rota, one from Tinian, and three from Saipan. The Commissioner of Education, who is appointed by the Board of Education, is responsible for administering the PSS in accordance with applicable laws and Board policies.

Pursuant to CNMI Constitutional Amendment No. 38, the public education school system is guaranteed an annual budget of not less than fifteen percent (15%) of the general revenues of the CNMI Government. This budgetary appropriation may not be reprogrammed for other purposes, and any unencumbered fund balance at the end of a fiscal year shall be available for re-appropriation.

B. Basis of Presentation

*Government-wide Statements:* The Statement of Net Assets and Statement of Activities present information about PSS. These statements include the overall financial activities of the school system. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of PSS' governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Notes to the Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

PSS uses funds and an account group to report on its financial position and results of operations in conformity with standards of fund basis accounting for local governments promulgated by the GASB.

*Fund Financial Statements:* A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording cash and/or other financial resources together with all related liabilities and residual equities and balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with the fund's special regulations, restrictions or limitations. The fund financial statements provide information about the PSS funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

PSS reports the following major governmental funds:

*General Fund* - Accounts for all financial resources except for those required to be accounted for in another fund. The General Fund is PSS' major operating fund.

*Capital Project Fund* - Accounts for financial resources to be used for the acquisition or construction of all major governmental projects.

*Non-major Funds* - Accounts for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. These were previously reported as Special Revenue Funds.

The Commissioner of Education has directed that indirect costs of the general fund expended for Federal grant activity be accounted for in a non-major fund and be used for particular programs and activities.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Notes to the Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting

Basis of accounting refers to the timing of recognition, that is, when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

*Government-wide Fund Financial Statements*

The governmental activities in the statement of net assets are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which PSS gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Government Fund Financial Statements*

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred.

Revenues from other sources are recognized when received. Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal interest on general long-term obligations are recognized when due unless resources have been provided for payment early in the subsequent fiscal year. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating cost to the fiscal year when items are used.

Expenditures for claims, judgments, compensated absences and employer retirement contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources. Budgetary encumbrances are not reported as expenditures.

Under the terms of grant agreements, PSS funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**  
**PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Notes to the Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

All governmental funds of the PSS follow the Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

PSS has implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and related standards. These new standards provide for significant changes in terminology and presentation and for the inclusion of Management’s Discussion and Analysis as required supplementary information.

D. Budgetary Data

PSS has no authority to impose taxes to generate revenue. PSS is a dependent school district, as revenue and expenditure authorizations come from the CNMI Legislature. The CNMI legislative budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted by the Legislature for PSS through an Annual Appropriations Act. Budgets for non-major funds are not included in the Annual Appropriation Act. Budgets for these funds are based upon grant awards received (and are thus non-appropriated). Project-length financial plans are adopted for all capital project funds.

Pursuant to the approved policies and regulations of the Public School System, the Policy 3100 outlines PSS’ general budgetary procedures. A summary of the key budgetary steps and data reflected in the financial statements are as follows:

1. Program managers and principals submit their budgets to the Commissioner for review and compilation by the Management Committee every October 1.
2. By the fifth working day of November, the Commissioner presents the budget to the Board.
3. From the November 15 to December 31, revisions are made as appropriate and as approved by the Board.
4. By the first working day of February, the budget is presented to the Senate, House and the Office of the Governor.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
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Notes to the Financial Statements  
September 30, 2006 and 2005

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity

1. Cash and Cash Equivalents

PSS pools money from several funds to facilitate disbursements and investments to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

2. Capital Assets

PSS' capital assets are recorded at original cost. Donated assets are recorded at their estimated fair value at the date of donation or forfeiture. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50	years
Land & building improvements	15	years
Vehicles	5	years
Others	5	years

In fiscal year 2005, PSS revised the useful life of vehicle and others from 8 years to 5 years.

3. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

4. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as expenditure and fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as a non-current liability. The liability as of September 30, 2006 and 2005 were \$3,901,009 and \$4,429,729, respectively. No expenditure is reported for these amounts. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

4. Compensated Absences, Continued

An employee cannot carry over to the following calendar year accumulated annual leave in excess of three hundred sixty (360) hours. However, any annual leave accumulated in excess of 360 hours as of the end of the calendar year can be converted to sick leave on the last day of such calendar year.

5. Net Assets/Fund Balances

Net assets in the government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt, restricted, and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or the laws or regulations of Federal agencies, or imposed by law through state statute.

In the governmental fund financial statements, reservations or restrictions of fund balance represents amounts that are not appropriable, are legally segregated for a specific purpose, or are restricted by the grant agreement. Designations of fund balance represent tentative management plans that are subject to change.

The governmental fund types classify fund balances as follows:

Reserved for encumbrances – the portion of fund balance available to pay for any commitments related to purchase orders and contracts that remain unperformed at yearend.

Unreserved – the portion of total fund balance available for appropriation, which is uncommitted at yearend.

F. New Accounting Standards

During fiscal year 2005, the PSS implemented GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*" (an amendment of GASB Statement No. 3), which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate, GASB Statement No. 40 requires certain disclosures of investment that have fair values that are highly sensitive to changes in interest rates. PSS does not believe that the implementation of this Statement will have a material effect on its financial statement relating to investments.

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(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

In November 2003, GASB issued Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*". The provisions for this Statement are effective for reporting periods beginning after December 15, 2005. PSS does not believe that the implementation of this Statement have a material effect on its financial statements.

In April 2004, GASB issued Statement No. 43, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*". This Statement establishes uniform financial reporting for other postemployment benefit plans by State and Local governments. The provisions of GASB Statement No. 43 are effective for reporting periods beginning after December 15, 2007. PSS does not believe that the implementation of this Statement will have a material effect on its financial statements.

In May 2004, GASB issued Statement No. 44, "*Economic Condition Reporting: The Statistical Section*", an amendment to NCGA Statement 1. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and further adds information from the new financial reporting model for State and Local governments required by GASB Statement No. 34. The provisions of this Statement are effective for reporting periods beginning after June 15, 2005.

In June 2004, GASB issued Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*". This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits expenses and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of State and Local governmental employers. The provisions of this Statement are effective for reporting periods beginning after December 15, 2008. PSS does not believe that the implementation of this Statement will have a material effect on its financial statements.

In June 2005, GASB issued Statement No. 47, "*Accounting for Termination Benefits*". This Statement establishes guidance for State and Local governmental employer on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations (e.g., early retirement window programs) and severance payments with respect to involuntary terminations. The provisions of this Statement are effective for reporting periods beginning after June 15, 2005. PSS does not believe that the implementation of this Statement will have a material effect on its financial statements.

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(1) Summary of Significant Accounting Policies, Continued

G. Accounting Standards Not Yet Adopted

In December 2004, GASB issued Statement No. 46, "Net Assets Restricted by Enabling Legislation" – an amendment of GASB Statement No. 34, which will be effective for the PSS beginning with its fiscal year ending September 30, 2007. The provisions of this Statement clarifies that a legally enforceable enabling legislation is on that a party external to a government, such as citizens, public interest groups or the judiciary, can compel a government to honor. The management of PSS has not yet determined the effect this Statement will have on its financial statements.

(2) Reconciliation of Government-wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustments for 2006 and 2005 consist of several elements as follows:

A. Explanation of certain differences between the governmental fund and the government-wide statement of net assets.

<u>Description</u>	<u>2006</u>	<u>2005</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column) less accumulated depreciation	\$ 93,588,181 ( 10,775,103)	\$ 88,278,090 ( 9,211,390)
Net capital assets	82,813,078	79,066,700
Capital improvement projects	1,103,615	-
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:		
Annual leave liability	( 3,901,009)	( 4,429,729)
Total adjustment	<u>\$ 80,015,684</u>	<u>\$ 74,636,971</u>

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Notes to the Financial Statements  
September 30, 2006 and 2005

(2) Reconciliation of Government-wide and Fund Financial Statements,  
Continued

B. Explanation of certain differences between the governmental fund  
statement of revenues, expenditures, and changes in fund balance and the  
government-wide statement of activities

The governmental statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The total adjustments of 2006 and 2005 pertain to the following:

<u>Description</u>	<u>2006</u>	<u>2005</u>
Certain activities in the Capital Improvement Project fund is reported in the statement of changes in fund balance	\$1,103,615	\$ 31,683
Annual leave accrual	-	( 160,250)
Capital outlay expenditures recorded in the Statement of Activities.	5,310,092	1,595,708
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements.	( 1,563,714)	( 1,627,773)
Total adjustments	<u>\$4,849,993</u>	<u>(\$ 160,632)</u>

(3) Detail Notes on all Funds

*Cash and Cash Equivalents*

GASB Statement No. 3 previously required government entities to present deposit risks as follows:

Category 1 – Deposits that are federally insured or collateralized with securities held by PSS or its agents in PSS' name.

Category 2 – Deposits that are uninsured but are fully collateralized with securities held by the pledging financial institution's trust department or agent in PSS' name.

Category 3 – Deposits that are collateralized with securities held by the pledging institution's trust department or agent but not in PSS' name and non-collateralized deposit.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosures for deposits falling under categories 1 and 2 but retained disclosures for deposits under category 3 that have exposure to custodial risk. PSS does not have a deposit policy for custodial risk.

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September 30, 2006 and 2005

(3) Detail Notes on all Funds, Continued

*Cash and Cash Equivalents, continued*

For purposes of the Statement of Net Assets, cash is defined as amounts in demand deposits as well as short-term investments with a maturity date within three months from the date acquired. As of September 30, 2006 and 2005, the total amounts deposited with the Federal Deposit Insurance Corporation (FDIC) insured banks were \$4,727,350 and \$4,511,540, respectively. From these deposits, \$200,000 in 2006 and 2005 were subject to coverage by FDIC with the remaining balance exceeding insurable limits. PSS does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized. PSS has not experienced any losses on these deposits.

*Accounts Receivable*

Accounts receivable are amounts due primarily from the CNMI government and from Federal grantor agencies.

Receivables at the government-wide level at September 30, 2006 and 2005 are as follows:

Accounts receivable - September 30, 2006

	<u>Receivable from CNMI</u>	<u>Receivable from Federal Agencies</u>
Governmental activities:		
General Fund	\$ 2,637,823	\$ 1,551,277
Other governmental activities	<u>69,048</u>	<u>-</u>
Total	<u>\$ 2,706,871</u>	<u>\$ 1,551,277</u>

Accounts receivable - September 30, 2005

	<u>Receivable from CNMI</u>	<u>Receivable from Federal Agencies</u>
Governmental activities:		
General Fund	\$ 1,410,038	\$ 1,302,440
Other governmental activities	<u>62,812</u>	<u>-</u>
Total	<u>\$ 1,472,850</u>	<u>\$ 1,302,440</u>

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Notes to the Financial Statements  
September 30, 2006 and 2005

(3) Detail Notes on all Funds, Continued

*Travel Advances*

The Board of Education's policy considers travel advances as a loan to the traveler until proper reconciliation of approved travel expenses has been authorized. Travel advances are liquidated upon submission of required travel documents in accordance with PSS' policy.

Travel advances, included in the statement of net assets as part of advances, are reported net of an allowance for doubtful accounts of \$272,277 at September 30, 2006 and 2005.

*Capital Assets*

Capital asset activity for the year ended September 30, 2006 and 2005 were as follows:

September 30, 2006

<u>Governmental activities</u>	<u>September 30, 2005</u>	<u>Increases</u>	<u>Retirement</u>	<u>September 30, 2006</u>
Capital asset not being depreciated:				
Land	\$36,647,850	\$ -	\$ -	\$36,647,850
Total capital assets not being depreciated:	<u>36,647,850</u>	<u>-</u>	<u>-</u>	<u>36,647,850</u>
Capital assets being depreciated:				
Buildings & improvements	46,802,327	4,487,309	-	51,289,636
Vehicles	3,626,164	487,233	-	4,113,397
Others	<u>1,201,750</u>	<u>335,550</u>	<u>-</u>	<u>1,537,300</u>
Total capital assets being depreciated	<u>51,630,241</u>	<u>5,310,092</u>	<u>-</u>	<u>56,940,333</u>
Less accumulated depreciation for:				
Buildings & improvements	6,142,549	936,047	-	7,078,596
Vehicles	2,276,056	388,064	-	2,664,120
Others	<u>792,786</u>	<u>239,603</u>	<u>-</u>	<u>1,032,389</u>
Total accumulated depreciation	<u>9,211,391</u>	<u>1,563,714</u>	<u>-</u>	<u>10,775,105</u>
Total capital assets being depreciated, net	<u>42,418,850</u>	<u>3,746,378</u>	<u>-</u>	<u>46,165,230</u>
Governmental activity capital assets, net	<u>\$79,066,700</u>	<u>\$ 3,746,378</u>	<u>\$ -</u>	<u>\$82,813,078</u>

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(3) Detail Notes on all Funds, Continued

*Capital Assets, Continued*

September 30, 2005

<u>Governmental activities</u>	<u>September 30, 2004</u>	<u>Increases</u>	<u>Retirement</u>	<u>September 30, 2005</u>
Capital asset not being depreciated:				
Land	\$36,647,850	\$ _____	\$ _____	\$36,647,850
Total capital assets not being depreciated:	<u>36,647,850</u>	<u>_____</u>	<u>_____</u>	<u>36,647,850</u>
Capital assets being depreciated:				
Buildings & improvements	46,622,327	180,000	-	46,802,327
Vehicles	3,515,292	1,246,275	1,135,403	3,626,164
Others	<u>1,650,377</u>	<u>169,433</u>	<u>618,060</u>	<u>1,201,750</u>
Total capital assets being depreciated	<u>51,787,996</u>	<u>1,595,708</u>	<u>1,753,463</u>	<u>51,630,241</u>
Less accumulated depreciation for:				
Buildings & improvements	5,206,210	936,339	-	6,142,549
Vehicles	2,182,906	461,814	1,135,403	1,509,317
Others	<u>907,373</u>	<u>229,620</u>	<u>618,060</u>	<u>518,933</u>
	8,296,489	1,627,773	1,753,463	8,170,799
Prior period adjustment to change Useful life of vehicle and others From 8 to 5	<u>_____</u>	<u>1,040,592</u>	<u>_____</u>	<u>1,040,592</u>
Total accumulated depreciation	<u>8,296,489</u>	<u>2,668,365</u>	<u>1,753,463</u>	<u>9,211,391</u>
Total capital assets being depreciated, net	<u>43,491,507</u>	<u>( 1,072,657)</u>	<u>_____</u>	<u>42,418,850</u>
Governmental activity capital assets, net	<u>\$80,139,357</u>	<u>(\$ 1,072,657)</u>	<u>\$ _____</u>	<u>\$79,066,700</u>

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September 30, 2006 and 2005

(3) Detail Notes on all Funds, Continued

*Capital Assets, Continued*

Depreciation expenses directly identified to specific functions are charged as direct expense and depreciation of assets that essentially serves all functions are charged as unallocated depreciation.

	2006	2005
Individual programs	\$ 260,290	\$ 220,490
Special education	196,940	198,811
School administration	86,967	116,545
Student services	40,980	3,798
General administration	41,688	50,156
Regular	15,416	7,618
Co-curricular	660	1,320
	642,941	598,738
Unallocated depreciation	920,773	1,029,035
Total	\$1,563,714	\$1,627,773

*Retirement Plan*

PSS contributes to the Northern Mariana Islands Retirement Fund (NMIRF), a defined benefit, cost-sharing multi-employer pension plan established and administered by the CNMI. NMIRF provides retirement, security and other benefits to employees of the CNMI government and CNMI agencies, instrumentalities and public corporations, and to their spouses and dependents. Benefits are based on the average annual salary over the term of credited service. Generally, benefits vest after three years of credited service. For early retirement, after 10 years of vesting service and members is at least 52 years of age. Members, who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. CNMI Public Law 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established.

As a result of the Fund's actuarial valuation report (as of October 1, 2003), it has been determined that for the year ended September 30, 2004, the funding requirement for employer is 36.7727% of covered payroll, and funding requirements for employees are 6.5% and 9.0% of covered payroll for Class I and Class II members, respectively.

The funding requirement is calculated as that percentage of total payroll, which is necessary to accumulate sufficient assets to pay benefits when due. The Fund uses the level percentage of payroll method to amortize the unfunded liability over a period not to exceed 40 years from October 1980. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation.

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(3) Detail Notes on all Funds, Continued

*Retirement Plan, Continued*

The Fund utilizes the actuarial cost method termed "entry age normal cost" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 7.5% per year on the investment of present and future assets, (b) a 5% increase in employee salaries compounded annually until retirement, (c) expenses at 1.1% of total payroll, and (d) retirement age of the earlier of age 62 and 3 years of vesting service (not including 5 additional years granted after 20 years of service) for Class I or age 60 and 25 years of service for Class II members (including 5 additional years granted after 20 years of service).

The PSS is exempt by Public Law 14-98 from any rate increase of its employer contribution to the Retirement Fund until November 21, 2010.

Required contributions and the percentage actually contributed for the current year and for the preceding three years are as follows:

<u>Fiscal Year Ended</u>	<u>Required Contribution</u>	<u>Percentage of Required Contribution Contributed</u>
9/30/06	\$ 8,113,912	100%
9/30/05	8,587,077	100%
9/30/04	8,391,306	100%
9/30/03	7,985,986	100%

*Medical and Life Insurance Benefits*

In addition to providing pension benefits, the CNMI Government also ensures that employees are provided with medical and life insurance benefits. The CNMI Government created the Group Health and Life Insurance Trust Fund ("Trust Fund"), held in trust and administered by the Northern Mariana Islands Retirement Fund (NMIRF). PSS contributes to the Group Health and Life Insurance program. This is open to active employees who work at least 20 hours per week and retired CNMI government employees who retire as a result of length of service, disability or age, as well as their dependents. Further, these eligible persons must have elected to enroll during the period permitted in the Emergency Regulations adopted on September 6, 1996. Life insurance coverage is to be provided by a private carrier. Contributions from employees and employers are based on rates as determined by NMIRF Board of Trustees. Employee deductions are made through payroll or pension benefit withholdings.

*Grants*

Federal grants and assistance awards from various Federal agencies made on the basis of entitlement periods are recorded as revenue when entitlement occurs. Federal reimbursement-type grants are recorded as revenues when the related expenditures or expenses are incurred.

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Notes to the Financial Statements  
September 30, 2006 and 2005

(3) Detail Notes on all Funds, Continued

*Transfer-in from CNMI Government*

Pursuant to Public Law 10-34, the CNMI government appropriated \$37,209,928 for PSS' operational use for the years ended September 30, 2006 and 2005.

Receivable from CNMI government under the general fund is summarized as follows:

	2006	2005
Receivable, beginning	\$ 1,410,038	\$ 4,278,074
Appropriation	37,209,928	37,209,928
Reprogramming	-	15,000
Total additions	37,209,928	37,224,928
Transfers	( 35,982,143)	( 37,654,435)
3% reduction	-	( 1,116,298)
Lapsed funds	-	( 1,322,231)
Total deductions	( 35,982,143)	( 40,092,964)
Receivable, ending	\$ 2,637,823	\$ 1,410,038

*Non-current Liabilities*

Non-current liabilities presented in the statement of net assets include accrued leave liability.

	2006	2005
Beginning balance	\$ 4,429,729	\$ 4,269,479
Increase (decrease)	( 528,720)	160,250
Ending balance	3,901,009	4,429,729
Due within one year	-	-
Accrued leave liability	\$ 3,901,009	\$ 4,429,729

PSS uses local funds to liquidate accrued leave liability.

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(3) Detail Notes on all Funds, Continued

Non-major funds

Specific revenues earmarked to finance particular programs and activities of the Public School System are accounted for in Special Revenue Funds. A summary of PSS' Non-major Funds as of September 30, 2006 and 2005 follows:

- Federal Grants Fund - This fund accounts for activities pertaining to Federal operations grants. The primary revenue source of this fund is grant awards from various Federal agencies.
  
- Local Donations Fund - This fund accounts for activities pertaining to local donations received for specific purposes. The primary revenue source of this fund is donations from private individuals or organizations.
  
- CNMI Grants Fund - This fund was established to account for projects that were appropriated without fiscal year limitation by Public Law 8-2.
  
- Indirect Costs Fund - This fund, established through directive of the PSS Commissioner of Education, accounts for indirect costs of PSS related to Federal grants.

(4) Contingencies

PSS administers significant financial assistance from the Federal government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including expenditure of resources for eligible purposes. Substantially, all grants are subject to either the Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees.

Disallowances and sanctions as a result of these audits may become liabilities of PSS and the general fund would be liable for the return of such funds. However, no liability which may arise from the ultimate outcome of this matter has been provided for in the accompanying financial statements.

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(5) Commitments

In June 1997, CNMI House Joint Resolution No. 10-36 authorized PSS to issue general obligation bonds for a total value not to exceed \$15,685,000. These bonds are used to leverage an equal amount of Federal capital improvement project funds to finance school construction projects, and will be repaid by the CNMI Government through appropriation of liquid fuel taxes per Public Law 11-14. The liability relating to these bonds are recorded by the CNMI Government.

In December 17, 2004, PSS entered into 5-year lease contract with two service providers for printers and photocopier machines for various schools. Equipment rental pertaining to these agreements for the year ended September 30, 2006 and 2005 was \$738,248 and \$553,680, respectively.

Future lease payments are as follows:

Year ended September, 2007	738,248
2008	738,248
2009	738,248
2010	<u>184,568</u>
Total	<u>\$2,399,312</u>

(6) Risk Management

The CNMI government is a self-insured entity. The government has limited its general liability to individuals to \$100,000 by statute. For this reason the government does not maintain any insurance on its buildings, or employees. At some future date, the PSS may insure some of its assets, as an autonomous agency as it is not required to follow the CNMI's government of self-insurance.

PSS does require performance bonds on all its building projects financed by the government.

(7) Economic Dependency

PSS receives a substantial amount of its support from Federal and local governments. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on PSS' programs and activities.

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(8) Current year restatements

As of September 30, 2006, liabilities for accrued for annual leave decreased by \$528,720. Since these were already expensed in prior years, the reduction in accrued liability is directly deducted from the net assets as current year restatement.

In fiscal year 2005, the Company analyzed the receivable from CNMI amounting to \$1,322,270 are lapsed. Prior period revenue related to these receivables was adjusted to deferred liability. These restatements were reflected on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

In addition, based on actual physical count conducted by PSS, it was noted that most of the assets are already obsolete and are scrapped, still have net book value. Thus, PSS changed the life of vehicle and other fixed assets from 8 years to 5 years. This resulted to increase in accumulated depreciation by \$1,040,592.

**SUPPLEMENTARY INFORMATION**

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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**Year Ended September 30, 2006**

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
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Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2006

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/05	Adjustments	Cash Receipts FY 06	Expenditures FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/06
<b>U.S. Department of Education</b>							
<b>Direct Programs</b>							
<b>CFDA# 84.922A</b>		\$ 9,833,803					
State Assess. - Assess. Scoring Ctr.	040SAS4ASC		\$ -	\$ -	\$ (153,747)	\$ 153,747	\$ -
IAP/T5 - GCS	043PVT4B06		(1,016)	1,016	-	-	-
IAP/T5 - JGA	043PVT4B11		-	-	(4,811)	4,811	-
IAP/T5 - MCS	043PVT4B13		7,595	(7,595)	(211,549)	211,549	-
IAP/T5 - NMA	043PVT4B14		61	(61)	(1,882)	1,882	-
IAP/T5 - SFB	043PVT4B16		1,157	(1,157)	(4,929)	4,929	-
IAP/T5 - SDA	043PVT4B17		-	-	(27,499)	27,499	-
IAP/T5 - SJT	043PVT4B18		5,138	(5,138)	(1,576)	1,576	-
IAP/T5 - SIS	043PVT4B19		248	(248)	(35,599)	35,599	-
IAP/T5 - SRS	043PVT4B20		211	(211)	-	-	-
IAP/T5 - WPS	043PVT4B21		122	(122)	-	-	-
IAP/T5 - Accreditation Personnel	044IAP4ACC		-	-	-	-	-
IAP/T5 - Class Size Reduction	044IAP4CSR		(24,106)	24,106	-	-	-
State Assessment - Admin.	050SAS5ADM		(3,529)	3,529	(1,132)	1,132	-
State Assess - Accreditation	050SAS5ACR		8,496	(8,496)	(116)	116	-
State Assess - Advanced Planning Program	050SAS5APP		-	-	(2,986)	2,986	-
State Assess - Bil Ed Proficiency	050SAS5BEP		6,647	(6,647)	(1,753)	1,753	-
State Assess - English Language Learner	050SAS5ELL		28	(28)	(531)	531	-
State Assess - SEA/LEA	050SAS5LEA		250	(250)	(5,652)	5,652	-
State Assess - SAT10	050SAS5SAT		73	(73)	(131,191)	131,191	-
State Assess - Assess. Scoring Ctr	050SAS5ASC		3,692	(3,692)	(160,534)	160,534	-
State Assess - Reading First Assess.	050SAS5RFA		454	(454)	-	-	-
State Assess - Training	050SAS5TRG		2,730	(2,730)	(2,725)	2,725	-
State Assess - Standard Based Assess.	050SAS5SBA		17,896	(17,896)	(8,342)	8,342	-
State Assess - Data Management System	050SAS5DMS		69	(69)	(69,925)	69,925	-
State Assess - Personnel	051SAS5SAP		17,591	(17,591)	-	-	-
IAP/T5 - Admin.	053IAP5ADM		10,321	(10,321)	(51,493)	51,493	-
IAP/T5 - PUB Sch. PDP, Improve and Reform	053IAP5PIR		37,589	(14,564)	(230,620)	230,620	23,025
IAP/T5 - PVT Sch. PDP, Improve and Reform	053IAP5PVT		8,631	(8,631)	(56,197)	56,197	-
IAP/T5 - Teacher Training	053IAP5PSS		21,944	(21,944)	(7,987)	7,987	-
IAP/T5 - Public School Prof. Dev. Program	053IAP5PUB		43,424	(43,424)	(131,994)	131,994	-
IAP/T5 - CMS	053PUBCMS		3,262	(3,262)	(42,514)	42,514	-
IAP/T5 - DAN	053PUBDAN		2,405	(2,405)	(32,112)	32,112	-
IAP/T5 - GES	053PUBGES		177	(177)	(66,973)	66,973	-
IAP/T5 - GTC	053PUBGTC		15,063	(15,063)	(53,531)	53,531	-
IAP/T5 - HJH	053PUBHJH		20	(20)	(37,397)	37,397	-
IAP/T5 - KAG	053PUBKAG		163	(163)	(44,453)	44,453	-
IAP/T5 - KES	053PUBKES		2	(2)	(11,448)	11,448	-
Balance carried forward			\$ 186,808	\$ (163,783)	\$ (1,593,198)	\$ 1,593,198	\$ 23,025

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2006

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/05	Adjustments	Cash Receipts FY 06	Expenditures FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/06
<b><u>U.S. Department of Education</u></b>							
<b><u>Direct Programs</u></b>							
<b><u>CFDA# 84.922A</u></b>							
Balance brought forward			\$ 186,808	\$ (163,783)	\$ (1,593,198)	\$ 1,593,198	\$ 23,025
IAP/T5 - KHS	053PUBKHS		2,617	(2,617)	(2,651)	2,651	-
IAP/T5 - MHS	053PUBMHS		910	(910)	(78,832)	78,832	-
IAP/T5 - OES	053PUBOES		24	(24)	(16,950)	16,950	-
IAP/T5 - RJH	053PUBRJH		4,425	(4,425)	(5,473)	5,473	-
IAP/T5 - RHS	053PUBRHS		7,925	(7,925)	(7,930)	7,930	-
IAP/T5 - SAS	053PUBSAS		-	-	(23,667)	23,667	-
IAP/T5 - SES	053PUBSES		74	(74)	(25,305)	25,305	-
IAP/T5 - SHS	053PUBSHS		36	(36)	(35,804)	35,804	-
IAP/T5 - SVS	053PUBSVS		1,508	(1,508)	(48,145)	48,145	-
IAP/T5 - TAN	053PUBTAN		5,827	(5,827)	(79,578)	79,578	-
IAP/T5 - TES	053PUBTES		39	(39)	(12,289)	12,289	-
IAP/T5 - THS	053PUBTHS		1,703	(1,703)	(39,815)	39,815	-
IAP/T5 - WSR	053PUBWSR		3,811	(3,811)	(43,942)	43,942	-
IAP/T5 - ADI	053PUBADI		1,643	(1,643)	(3,955)	3,955	-
IAP/T5 - BSM	053PVT5BSM		211	558	(24,870)	24,870	769
IAP/T5 - CDC	053PVT5CDC		-	-	(6,428)	6,428	-
IAP/T5 - EIS	053PVT5EIS		1,747	(1,747)	(63,400)	63,400	-
IAP/T5 - GCR	053PVT5GCR		580	(580)	(11,897)	11,897	-
IAP/T5 - GCS	053PVT5GCS		244	(244)	(173,217)	173,217	-
IAP/T5 - GCT	053PVT5GCT		1	(1)	(6,813)	6,813	-
IAP/T5 - GHI	053PVT5GHI		1,072	(1,072)	(5,491)	5,491	-
IAP/T5 - GMS	053PVT5GMS		366	(366)	(11,495)	11,495	-
IAP/T5 - JGA	053PVT5JGA		-	-	(24,758)	24,758	-
IAP/T5 - NMC	053PVT5NMC		-	1,770	(107,150)	107,150	1,770
IAP/T5 - NMA	053PVT5NMA		1,796	(1,062)	(23,451)	23,451	734
IAP/T5 - SCS	053PVT5SCS		9,118	(9,852)	(23,124)	23,124	(734)
IAP/T5 - SDA	053PVT5SDA		-	2,149	(42,224)	42,224	2,149
IAP/T5 - SFB	053PVT5SFB		-	2,678	(29,012)	29,012	2,678
IAP/T5 - SIS	053PVT5SIS		-	-	(96,849)	96,849	-
IAP/T5 - SJT	053PVT5SJT		525	(525)	(13,759)	13,759	-
IAP/T5 - SRS	053PVT5SRS		128	(128)	(32,749)	32,749	-
IAP/T5 - WPS	053PVT5WPS		2,187	(2,187)	(1,529)	1,529	-
IAP/T5 - Class Size Reduction	054IAP5CSR		168,681	(168,681)	(738,836)	738,836	-
State Assess - Accreditation	060SAS6ACR		-	-	(65,947)	65,947	-
State Assess - Admin	060SAS6ADM		-	172	(25,472)	25,472	172
State Assess - Assess. Scoring Ctr	060SAS6ASC		-	-	(26,831)	26,831	-
State Assess - Data Management System	060SAS6DMS		-	65,010	(98,803)	98,803	65,010
Balance carried forward			<u>\$ 404,006</u>	<u>\$ (308,433)</u>	<u>\$ (3,671,639)</u>	<u>\$ 3,671,639</u>	<u>\$ 95,573</u>

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2006

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/05	Adjustments	Cash Receipts FY 06	Expenditures FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/06
<b><u>U.S. Department of Education</u></b>							
<b><u>Direct Programs</u></b>							
<b><u>CFDA# 84.922A</u></b>							
Balance brought forward			\$ 404,006	\$ (308,433)	\$ (3,671,639)	\$ 3,671,639	\$ 95,573
State Assess - Bil Ed Proficiency	060SAS6BPT	-	-	1,118	(7,532)	7,532	1,118
State Assess - English Language Learner	060SAS6ELL	-	-	620	(14,371)	14,371	620
State Assess - SAT10	060SAS6SAT	-	-	-	(1,748)	1,748	-
State Assess - Standard Based Assess.	060SAS6SBA	-	-	8,631	(38,850)	38,850	8,631
State Assess - Training	060SAS6TRG	-	-	13,651	(46,935)	46,935	13,651
State Assess - Personnel	060SAS6SAP	-	-	10,392	(399,956)	399,956	10,392
IAP/T5 - Admin.	063IAP6ADM	-	-	6,526	(91,788)	91,788	6,526
IAP/T5 - PUB Sch. PDP, Improve and Reform	063IAP6PIR	-	-	241,329	(692,121)	692,121	241,329
IAP/T5 - Public School Prof. Dev. Program	063IAP6PDP	-	-	1,043	(78,771)	78,771	1,043
IAP/T5 - PVT Sch. PDP, Improve and Reform	063IAP6PVT	-	-	1,141	(186,574)	186,574	1,141
IAP/T5 - Standard and Assessment Projects	063IAP6SAP	-	-	-	(54,018)	54,018	-
IAP/T5 - Troops for Teachers	063IAP6TFT	-	-	15,899	(81,871)	81,871	15,899
IAP/T5 - Teacher Training Institutes	063IAP6TTI	-	-	-	(180,278)	180,278	-
IAP/T5 - CMS	063PUB6A01	-	-	7,634	(59,561)	59,561	7,634
IAP/T5 - DAN	063PUB6A02	-	-	8,548	(98,339)	98,339	8,548
IAP/T5 - GES	063PUB6A03	-	-	2,174	(145,708)	145,708	2,174
IAP/T5 - GTC	063PUB6A04	-	-	14,133	(22,857)	22,857	14,133
IAP/T5 - HJH	063PUB6A05	-	-	52,322	(176,431)	176,431	52,322
IAP/T5 - KAG	063PUB6A06	-	-	16,991	(25,308)	25,308	16,991
IAP/T5 - KES	063PUB6A07	-	-	3,396	(102,425)	102,425	3,396
IAP/T5 - KHS	063PUB6A08	-	-	44,176	(44,176)	44,176	44,176
IAP/T5 - MHS	063PUB6A09	-	-	51,925	(136,553)	136,553	51,925
IAP/T5 - OES	063PUB6A10	-	-	17,493	(76,554)	76,554	17,493
IAP/T5 - RJH	063PUB6A11	-	-	16,990	(16,990)	16,990	16,990
IAP/T5 - RHS	063PUB6A12	-	-	16,991	(17,395)	17,395	16,991
IAP/T5 - SAS	063PUB6A13	-	-	7,464	(17,957)	17,957	7,464
IAP/T5 - SES	063PUB6A14	-	-	6,362	(31,248)	31,248	6,362
IAP/T5 - SHS	063PUB6A15	-	-	558	(200,469)	200,469	558
IAP/T5 - SVS	063PUB6A16	-	-	4,138	(56,081)	56,081	4,138
IAP/T5 - TAN	063PUB6A17	-	-	3,967	(65,615)	65,615	3,967
IAP/T5 - TES	063PUB6A18	-	-	7,889	(8,205)	8,205	7,889
IAP/T5 - THS	063PUB6A19	-	-	15,102	(16,320)	16,320	15,102
IAP/T5 - WSR	063PUB6A20	-	-	8,901	(77,966)	77,966	8,901
IAP/T5 - EIS	063PVT6B04	-	-	2,700	(4,620)	4,620	2,700
IAP/T5 - GCR	063PVT6B05	-	-	2,659	(30,792)	30,792	2,659
IAP/T5 - GCS	063PVT6B06	-	-	413	(80,663)	80,663	413
IAP/T5 - GCT	063PVT6B07	-	-	-	(42,445)	42,445	-
Balance carried forward			\$ 404,006	\$ 304,843	\$ (7,101,130)	\$ 7,101,130	\$ 708,849

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

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Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
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Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/05	Adjustments	Cash Receipts FY 06	Expenditures FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/06
<b><u>U. S. Department of Education</u></b>							
<b><u>Direct Programs</u></b>							
<b><u>CFDA# 84. 922A</u></b>							
Balance brought forward			\$ 404,006	\$ 304,843	\$ (7,101,130)	\$ 7,101,130	\$ 708,849
IAP/T5 - GHI	063PVT6B08		-	-	(20,790)	20,790	-
IAP/T5 - GMS	063PVT6B09		-	-	(3,696)	3,696	-
IAP/T5 - NMA	063PVT6B13		-	-	(3,098)	3,098	-
IAP/T5 - SCS	063PVT6B15		-	1,898	(90,369)	90,369	1,898
IAP/T5 - SIS	063PVT6B16		-	1,804	(34,627)	34,627	1,804
IAP/T5 - WPS	063PVT6B20		-	-	(9,103)	9,103	-
IAP/T5 - Class Size Reduction			-	52,396	(1,807,823)	1,807,823	52,396
Subtotal CFDA# 84. 922A			\$ 404,006	\$ 360,941	\$ (9,070,636)	\$ 9,070,636	\$ 764,947
<b><u>CFDA# 84. 215U</u></b>							
		\$ -					
Christa McAulife Grant	0045CS		\$ (578)	\$ -	\$ -	\$ -	\$ (578)
Christa McAulife Grant	0045HS		(205)	-	-	-	(205)
Christa McAulife Grant	0045MA		(961)	-	-	-	(961)
Christa McAulife Grant	0045MR		(52)	-	-	-	(52)
Christa McAulife Grant	0045RA		(1,818)	-	-	-	(1,818)
Christa McAulife Grant	0045RF		(118)	-	-	-	(118)
Christa McAulife Grant	0045RG		(105)	-	-	-	(105)
Christa McAulife Grant	0245PKW2		(11)	-	-	-	(11)
Subtotal CFDA# 84. 215U			\$ (3,848)	\$ -	\$ -	\$ -	\$ (3,848)
<b><u>CFDA# 84. 256A</u></b>							
		\$ 352,623					
Reading Master Kit (TFAS)	0498RK4RMK		\$ 92,755	\$ (92,755)	\$ -	\$ -	\$ -
Reading Master Kit (TFAS)	0698BK6RMK		-	-	(15,161)	15,161	-
Reading Master Kit (TFAS)	0698RK6RMK		1,643	2,729	(260,081)	260,081	4,372
Subtotal CFDA# 84. 256A			\$ 94,398	\$ (90,026)	\$ (275,242)	\$ 275,242	\$ 4,372

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**  
(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2006

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/05	Adjustments	Cash Receipts FY 06	Expenditures FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/06
<b><u>U. S. Department of Education</u></b>							
<b><u>Direct Programs</u></b>							
<b><u>CFDA# 84. 364A</u></b>		\$ 312, 111					
Library Reading First	0697LR5LRF		\$ -	\$ -	\$ (12, 139)	\$ 12, 139	\$ -
Subtotal CFDA# 84. 364A			\$ -	\$ -	\$ (12, 139)	\$ 12, 139	\$ -
<b><u>CFDA# 84. 027</u></b>		\$ 4, 654, 011					
SPED Handi capped Chi ldren SEA	0583SE5SPE		\$ 41, 521	\$ (41, 521)	\$ (187, 992)	\$ 187, 992	\$ -
SPED - Admi n	0584AD5SPE		7, 198	(7, 198)	(99, 302)	99, 302	-
SPED Handi capped Chi ldren LEA	0585LE5SPE		180, 089	(180, 089)	(224, 992)	224, 992	-
SPED Handi capped Chi ldren SEA	0683SE6SPE		-	115, 185	(935, 785)	935, 785	115, 185
SPED - Admi n	0684AD6SPE		-	6, 131	(96, 383)	96, 383	6, 131
SPED Handi capped Chi ldren LEA	0685LE6SPE		-	113, 481	(3, 126, 870)	3, 126, 870	113, 481
Subtotal CFDA# 84. 027			\$ 228, 808	\$ 5, 989	\$ (4, 671, 324)	\$ 4, 671, 324	\$ 234, 797
<b><u>CFDA# 84. 323A</u></b>		\$ 131, 220					
SPED - State Improvement Grant	0586SI 6SPE		\$ -	\$ (1)	\$ (37, 454)	\$ 37, 454	\$ (1)
Subtotal CFDA# 84. 323A			\$ -	\$ (1)	\$ (37, 454)	\$ 37, 454	\$ (1)
<b><u>CFDA# 84. 048B</u></b>		\$ 358, 628					
PREL Voced	68146		\$ -	\$ -	\$ -	\$ -	\$ -
Subtotal CFDA# 84. 323A			\$ -	\$ -	\$ -	\$ -	\$ -
<b><u>CFDA# 84. 181</u></b>		\$ 459, 112					
SPED Infant & Toddlers	0588IF5SPE		\$ 18, 488	\$ (18, 488)	\$ (46, 383)	\$ 46, 383	\$ -
SPED Infant & Toddlers	0688IF6SPE		-	20, 807	(385, 591)	385, 591	20, 807
Subtotal CFDA# 84. 181			\$ 18, 488	\$ 2, 319	\$ (431, 974)	\$ 431, 974	\$ 20, 807

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
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Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2006

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/05	Adjustments	Cash Receipts FY 06	Expenditures FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/06
<b><u>U. S. Department of Education</u></b>							
<b><u>Direct Programs</u></b>							
<b><u>CFDA# 84.000</u></b>		\$ -					
Comparability NCES	2989		\$ (9,673)	\$ 9,673	\$ (9,673)	\$ 9,673	\$ -
Common Core - Data	0165		(8,939)	4,386	(4,386)	4,386	(4,553)
Data Improvement - NCES	0089		(859)	859	(859)	859	-
Common Core - Data	0265CCD2		(28,000)	-	-	-	(28,000)
Common Core - Data	0365CC3CCD		(21,000)	-	-	-	(21,000)
Comparability NCES	0289NCE2		(16,821)	2,155	(2,155)	2,155	(14,666)
Subtotal CFDA# 84.000			\$ (85,292)	\$ 17,073	\$ (17,073)	\$ 17,073	\$ (68,219)
<b><u>CFDA# 84.185</u></b>		\$ 60,000					
R. C. Byrd School Program	0574RC5RCB		\$ -	\$ -	\$ (15,245)	\$ 15,245	\$ -
R. C. Byrd School Program	0674RC6RCB		-	-	(23,755)	23,755	-
Subtotal CFDA# 84.185			\$ -	\$ -	\$ (39,000)	\$ 39,000	\$ -
<b>Total U. S. Department of Education</b>			<b>\$ 16,161,508</b>	<b>\$ 656,560</b>	<b>\$ 296,295</b>	<b>\$ (14,554,842)</b>	<b>\$ 14,554,842</b>
<b><u>U. S. Department of Health and Human Services</u></b>							
<b><u>Direct Programs</u></b>							
<b><u>CFDA# 93.600</u></b>		\$ 1,734,926					
Headstart Construction	0475PI4HDS		\$ 8	\$ 32,273	\$ (411,110)	\$ 411,110	\$ 32,281
Headstart Admin.	0571AD5HDS		1	(1)	(999)	999	-
Headstart Basic	0572BA5HDS		22,129	(22,129)	(47,475)	47,475	-
Headstart Emergency Fund (Typhoon)	0572EF5HDS		911	(911)	-	-	-
Headstart Training	0573TT5HDS		-	-	(6,790)	6,790	-
Headstart Admin	0671AD6HDS		318	(169)	(28,795)	28,795	149
Headstart Basic	0672BA6HDS		71,248	(1,603)	(1,423,858)	1,423,858	69,645
Headstart Employees Mileage	0672BA6HDS		-	-	(5,000)	5,000	-
Headstart Training	0673TR6HDS		894	1,175	(36,761)	36,761	2,069
Headstart Admin	0771AD7HDS		-	-	(1,222)	1,222	-
Headstart Basic	0772BA7HDS		-	44,766	(188,760)	188,760	44,766
Balance carried forward			\$ 95,509	\$ 53,401	\$ (2,150,770)	\$ 2,150,770	\$ 148,910

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
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(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2006

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/05	Adjustments	Cash Receipts FY 06	Expenditures FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/06
<b><u>U. S. Department of Health and Human Services</u></b>							
<b><u>Direct Programs</u></b>							
<b><u>CFDA# 93.600</u></b>							
Balance brought forward			\$ 95,509	\$ 53,401	\$ (2,150,770)	\$ 2,150,770	\$ 148,910
Headstart Employees Mileage	0772MI 7HDS		-	75	(75)	75	75
Headstart Training	0772TR7HDS		-	-	(1,785)	1,785	-
Subtotal CFDA# 93.600			<u>\$ 95,509</u>	<u>\$ 53,476</u>	<u>\$ (2,152,630)</u>	<u>\$ 2,152,630</u>	<u>\$ 148,985</u>
				\$ 1,700,190			
<b><u>CFDA# 93.575</u></b>							
Child Care Administration	0590AD5CCP		\$ 3,431	\$ (3,431)	\$ (38,577)	\$ 38,577	\$ -
Child Care Certificates	0591CC5CCP		1,269	(1,269)	(266,131)	266,131	-
Child Care Quality Activity	0592QA5CCP		3,106	(3,106)	(19,796)	19,796	-
Child Care School Age/R&R	0593RR5CCP		1	(1)	(8,266)	8,266	-
Child Care Infant & Toddler	0595IF5CCP		-	-	(56,456)	56,456	-
Child Care Quality Expansion	0596QE5CCP		-	-	(7,985)	7,985	-
Child Care Administration	0690AD6CCP		-	2,654	(76,134)	76,134	2,654
Child Care Certificates	0691CC6CCP		-	3,132	(888,723)	888,723	3,132
Child Care Quality Activity	0692QA6CCP		-	(894)	(62,527)	62,527	(894)
Child Care Infant & Toddler	0695IF6CCP		-	4,689	(34,265)	34,265	4,689
Child Care Quality Expansion	0696QE6CCP		-	894	(128,884)	128,884	894
Child Care Technical Assistance	0589TA5CCB		(10,000)	3,875	(3,875)	3,875	(6,125)
Subtotal CFDA# 93.575			<u>\$ (2,193)</u>	<u>\$ 6,543</u>	<u>\$ (1,591,619)</u>	<u>\$ 1,591,619</u>	<u>\$ 4,350</u>
							\$ 126,825
<b><u>CFDA# 93.938</u></b>							
Aids- HIV	0581HI 4HI V		\$ 3,027	\$ (3,027)	\$ (7,746)	\$ 7,746	\$ -
Aids- HIV	0581HI 4HI V		-	1,383	(114,174)	114,174	1,383
Subtotal CFDA# 93.938			<u>\$ 3,027</u>	<u>\$ (1,644)</u>	<u>\$ (121,920)</u>	<u>\$ 121,920</u>	<u>\$ 1,383</u>
<b>Total U. S. Department of Health and Human Services</b>			<b><u>\$ 3,561,941</u></b>	<b><u>\$ 96,343</u></b>	<b><u>\$ 58,375</u></b>	<b><u>\$ (3,866,169)</u></b>	<b><u>\$ 3,866,169</u></b>
							<b><u>\$ 154,718</u></b>

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2006

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/05	Adjustments	Cash Receipts FY 06	Expenditures FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/06
<b><u>U. S. Department of Agriculture</u></b>							
<b><u>Direct Programs</u></b>							
<b><u>CFDA #10. 555</u></b>		\$ 6,149,995					
USDA TEFAP	0175		\$ (2,045)	\$ -	\$ -	\$ -	\$ (2,045)
FNS TEFAP	0577FS5TFP		-	-	(31,135)	31,135	-
FNS Breakfast Lunch & Snacks Program	0577BL5FNS		49,008	(49,008)	(1,234,449)	1,234,449	-
FNS State Admin. Expense	0578AD5FNS		4,425	(4,425)	(5,490)	5,490	-
FNS Nutrition Education	0579NE5FNS		1,637	(1,637)	(9,048)	9,048	-
FNS San Vicente Cafetorium	0580CA5FNS		-	-	(693,954)	693,954	-
FNS Equip. & Facility Improvement	0580EF5FNS		8,104	(8,104)	(200,052)	200,052	-
FNS TEFAP	0677AD6TFP		-	-	(32,299)	32,299	-
FNS Breakfast Lunch & Snacks Program	0677BL6FNS		-	35,517	(5,445,014)	5,445,014	35,517
FNS State Admin. Expense	0678AD6FNS		-	8,540	(112,561)	112,561	8,540
FNS Nutrition Education	0679NE6FNS		-	-	(102,306)	102,306	-
FNS Equip. & Facility Improvement	0680EF6FNS		-	884	(100,227)	100,227	884
<b>Total U. S. Department of Agriculture</b>		<b>\$ 6,149,995</b>	<b>\$ 61,129</b>	<b>\$ (18,233)</b>	<b>\$ (7,966,535)</b>	<b>\$ 7,966,535</b>	<b>\$ 42,896</b>
<b><u>U. S. Department of Transportation</u></b>							
<b><u>Direct Programs</u></b>							
<b><u>CFDA #20. 509</u></b>		\$ 948,974					
Federal Transit Bus	0570BU5BUS		\$ 44,565	\$ (44,565)	\$ -	\$ -	\$ -
Federal Transit Bus	0570BU5FTA		268,709	(268,709)	(528,785)	528,785	-
<b>Total U. S. Department of Transportation</b>		<b>\$ 948,974</b>	<b>\$ 313,274</b>	<b>\$ (313,274)</b>	<b>\$ (528,785)</b>	<b>\$ 528,785</b>	<b>\$ -</b>

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**  
(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2006

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/05	Adjustments	Cash Receipts FY 06	Expenditures FY 06	Receivable From Grantor (Deferred Revenue) at 09/30/06
<b><u>Other</u></b>							
<b><u>Direct Programs</u></b>							
<b><u>CFDA# 94.006A</u></b>		\$ 550,000					
Ameri corps - Admi n.	0499AD4AMC		\$ 275	\$ (275)	\$ (706)	\$ 706	\$ -
Ameri corps	0499AM4AMC		10,893	(10,893)	(1,088)	1,088	-
Ameri corps - Admi n.	0676AD6AMC		-	924	(924)	924	924
Ameri corps - Program Operating Costs	0499AM4AMC		-	6,881	(6,881)	6,881	6,881
<b>Total Other Programs</b>		<b>\$ 550,000</b>	<b>\$ 11,168</b>	<b>\$ (3,363)</b>	<b>\$ (9,599)</b>	<b>\$ 9,599</b>	<b>\$ 7,805</b>
<b>Total Federal Grants Fund - Receivable balance</b>		<b>\$ 27,372,418</b>	<b>\$ 1,138,474</b>	<b>\$ 19,800</b>	<b>\$ (26,925,930)</b>	<b>\$ 26,925,930</b>	<b>\$ 1,158,274</b>
<b><u>Department of Interior</u></b>							
<b><u>Pass Through the CNMI Government</u></b>							
<b><u>CFDA# 15.875</u></b>							
Compact Impact Grant - School Renovation	0675DI61MA	\$ 2,000,000	\$ -	\$ (1,858,637)	\$ (141,363)	\$ 141,363	\$ (1,858,637)
<b>Total Other Programs</b>		<b>\$ 2,000,000</b>	<b>\$ -</b>	<b>\$ (1,858,637)</b>	<b>\$ (141,363)</b>	<b>\$ 141,363</b>	<b>\$ (1,858,637)</b>
<b>Total Federal Grants Fund - Deferred Revenue balance</b>		<b>\$ 2,000,000</b>	<b>\$ -</b>	<b>\$ (1,858,637)</b>	<b>\$ (141,363)</b>	<b>\$ 141,363</b>	<b>\$ (1,858,637)</b>
<b>Total Federal Grants Fund</b>		<b>\$ 29,372,418</b>	<b>\$ 1,138,474</b>	<b>\$ (1,838,837)</b>	<b>\$ (27,067,293)</b>	<b>\$ 27,067,293</b>	<b>\$ (700,363)</b>

**COMMONWEALTH OF THE NORTHERN MARIANA ISLAND**  
**PUBLIC SCHOOL SYSTEM**  
(A Component Unit of the CNMI Government)

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2006

(1) Scope of Review

The Public School System (PSS) was established as a public non-profit corporation by the Commonwealth of the Northern Mariana Islands (CNMI) Public Law 6-10, effective October 25, 1988 and began operations on October 1, 1988. All significant operations of PSS are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior's Office of the Inspector General has been designated as PSS' cognizant agency for the Single Audit.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotments or grant awards received. All expenses and capital outlays are reported as expenditures.

Any Federal funds expended in excess of Federal funds received are recorded as a receivable from the grantor agency and any Federal funds received in excess of Federal funds expended are recorded as a payable to the grantor agency.

b. Indirect Cost Allocation

PSS negotiated an indirect cost plan with the U.S. Department of the Education for fiscal year 2005. It is applicable to all Federal grant programs under the U.S. Department of Education and was 7.2% of total direct cost less items of equipment, alterations and renovations, flow-through funds and that portion of each sub award in excess of \$25,000 for the year ended September 30, 2006.