

PUBLIC SCHOOL SYSTEM

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

Year Ended September 30, 2019

**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, 2019**

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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, 2019

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BURGER & COMER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the State Board of Education of the
Commonwealth of the Northern Mariana Islands
Public School System

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands Public School System (PSS), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our 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 remaining fund information of the PSS, as of September 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 17 and budgetary comparison information on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the PSS' basic financial statements. The combining nonmajor fund financial statements and the schedule of expenditures/expense, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2020, on our consideration of the PSS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PSS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PSS' internal control over financial reporting and compliance.

BURGER & COMER, P.C.

Saipan, Commonwealth of the Northern Mariana Islands

November 2, 2020

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

Statement of Net Position
September 30, 2019

Assets

Current assets:

Cash and cash equivalents	\$ 1,156,340
Receivables from the CNMI Government	4,949,038
Receivables from Federal agencies	2,340,787
Other receivables, net	<u>946,889</u>
Total current assets	<u>9,393,054</u>

Noncurrent assets:

Capital assets, net	<u>75,877,010</u>
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Total Assets	<u>\$ 85,270,064</u>
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Liabilities

Current liabilities:

Accounts payable and accrued expenses	7,465,226
Compensated absences due in one year	<u>1,083,132</u>
Total current liabilities	<u>8,548,358</u>

Noncurrent liabilities:

Compensated absences	<u>2,700,970</u>
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Total noncurrent liabilities	<u>2,700,970</u>
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Total Liabilities	<u>11,249,328</u>
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Deferred Inflows of Resources

Grants received	<u>1,259,217</u>
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Net Position

Investment in:

Capital assets	75,877,010
Restricted for special purpose	2,321,370
Unrestricted	<u>(5,436,861)</u>

Net Position	<u>72,761,519</u>
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TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 85,270,064</u>
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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)

Statement of Activities
For the Year Ended September 30, 2019

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		<u>Net (Expenses)</u> <u>Revenues</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	
Governmental activities:				
Instruction:				
Regular	\$ 51,932,225	\$ 826,642	\$ 18,316,365	\$ (32,789,218)
Student services	14,093,999	-	12,671,675	(1,422,324)
Special	13,217,728	-	10,751,087	(2,466,641)
Co-curricular	3,708,918	-	293,474	(3,415,444)
Total instruction	<u>82,952,870</u>	<u>826,642</u>	<u>42,032,601</u>	<u>(40,093,627)</u>
Support services:				
Other	1,991,713	-	1,463,686	(528,027)
School administration	1,823,233	-	-	(1,823,233)
General administration	3,010,118	-	-	(3,010,118)
Depreciation - unallocated	1,542,292	-	-	(1,542,292)
Total support services	<u>8,367,356</u>	<u>-</u>	<u>1,463,686</u>	<u>(6,903,670)</u>
Total governmental activities	<u>\$ 91,320,226</u>	<u>\$ 826,642</u>	<u>\$ 43,496,287</u>	<u>(46,997,297)</u>
				40,940,631
				<u>261,125</u>
				<u>41,201,756</u>
				(5,795,541)
				<u>78,557,060</u>
				<u>\$ 72,761,519</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 Sheet
Governmental Funds
September 30, 2019

	General Fund	Federal Fund	Non-major Funds	Total
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 647,210	\$ 471,320	\$ 37,810	\$ 1,156,340
Receivables from CNMI	4,949,038	-	-	4,949,038
Receivables from Federal agencies		2,340,787	-	2,340,787
Other receivables	515,423		431,466	946,889
Due from (to) other funds	197,220	(1,666,505)	1,469,285	-
TOTAL ASSETS	\$ 6,308,891	\$ 1,145,602	\$ 1,938,561	\$ 9,393,054
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
Liabilities:				
Accounts payable and accrued expenses	7,004,490	460,736	-	7,465,226
Total liabilities	7,004,490	460,736	-	7,465,226
Deferred Inflows of Resources:				
Grants received	-	-	1,259,217	1,259,217
Total deferred inflows of resources	-	-	1,259,217	1,259,217
Fund Balances:				
Restricted	-	684,866	1,636,504	2,321,370
Assigned	-	-	332,977	332,977
Unassigned	(695,599)	-	(1,290,137)	(1,985,736)
Total fund balances	(695,599)	684,866	679,344	668,611
Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 6,308,891	\$ 1,145,602	\$ 1,938,561	\$ 9,393,054
Reconciliation of fund balance of governmental funds to net position - governmental activities:				
Fund balances- governmental funds				668,611
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.				
Cost of capital assets			\$ 109,795,983	
Accumulated depreciation			(33,918,973)	75,877,010
Long-term liabilities that are not due and payable in the current period and therefore are not reported as liabilities in the Funds.				
Compensated absences				(3,784,102)
Net position - governmental activities				\$ 72,761,519

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
Governmental Funds
For the Year Ended September 30, 2019

	General Fund	Federal Fund	Non-major Funds	Total
Revenues:				
Federal	\$ 1,091,731	\$ 42,032,601	\$ 371,955	\$ 43,496,287
Local	-	-	261,125	261,125
CNMI appropriations	40,940,631	-	-	40,940,631
Charges for services	-	-	826,642	826,642
Total revenues	<u>42,032,362</u>	<u>42,032,601</u>	<u>1,459,722</u>	<u>85,524,685</u>
Expenditures:				
Instructional programs:				
Regular	33,069,728	18,316,365	366,356	51,752,449
Student services	1,422,324	12,671,675	-	14,093,999
Special	2,427,783	10,751,087	38,858	13,217,728
Co-curricular	3,059,295	293,474	356,149	3,708,918
Total instructional programs	<u>39,979,130</u>	<u>42,032,601</u>	<u>761,363</u>	<u>82,773,094</u>
Supporting services:				
Other	1,825,785	-	165,928	1,991,713
School administration	1,823,233	-	-	1,823,233
General administration	2,183,476	-	826,642	3,010,118
Total supporting services	<u>5,832,494</u>	<u>-</u>	<u>992,570</u>	<u>6,825,064</u>
Total expenditures	<u>45,811,624</u>	<u>42,032,601</u>	<u>1,753,933</u>	<u>89,598,158</u>
Deficiency of revenues over expenditures and other financing sources	(3,779,262)	-	(294,211)	(4,073,473)
Fund balance, beginning	<u>3,083,663</u>	<u>684,866</u>	<u>973,555</u>	<u>4,742,084</u>
Fund balance, ending	<u>\$ (695,599)</u>	<u>\$ 684,866</u>	<u>\$ 679,344</u>	<u>\$ 668,611</u>

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 Year Ended September 30, 2019

Total net change in fund balances - governmental funds	\$ (4,073,473)
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Amounts reported for governmental activities in the statement of activities are different because of:

Change in compensated absences	(161,238)
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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 position and allocated over their estimated useful lives as annual depreciation expense in the statements of activities. This is the amount by which capital outlays exceed (are less than) depreciation in the period.

Capital outlays - excess of reduction of construction in progress over additions to capital assets	\$ (18,538)	
Depreciation expense	<u>(1,542,292)</u>	<u>(1,560,830)</u>

Total change in net position	\$ <u>(5,795,541)</u>
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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)

Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
Budget and Actual (GAAP Basis) - General Fund
For the Year Ended September 30, 2019

	General Fund				
	Budget			Actual	Variance
	Original	Revision	Final		Favorable (Unfavorable)
Expenditures:					
Personnel	\$ 40,137,007	\$ (6,133,500)	\$ 34,003,507	\$ 40,485,064	\$ (6,481,557)
All other	<u>3,097,582</u>	<u>(475,166)</u>	<u>2,622,416</u>	<u>5,326,560</u>	<u>(2,704,144)</u>
Total expenditures	<u>43,234,589</u>	<u>(6,608,666)</u>	<u>36,625,923</u>	<u>45,811,624</u>	<u>(9,185,701)</u>
Revenues:					
CNMI appropriation	<u>43,234,589</u>	<u>(6,608,666)</u>	<u>36,625,923</u>	<u>40,940,631</u>	<u>4,314,708</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,870,993)</u>	<u>\$ (4,870,993)</u>
Reconciliation of Budget to GAAP Basis:					
2019 Budget					
Appropriations				\$ 36,625,923	
2019 Expenditures					
Actual (GAAP)				<u>45,811,624</u>	
Variance				<u>\$ (9,185,701)</u>	

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 Basic Financial Statements
September 30, 2019

(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 CNMI Public Law No. 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 (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. 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 CNMI 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 PSS in accordance with applicable laws and BOE policies.

Pursuant to CNMI Constitutional Amendment No. 38 and House Legislative Initiative 18-12, the public education school system is guaranteed an annual budget of not less than twenty five percent (25%) of general fund 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

District-wide Statements: The Statement of Net Position and Statement of Activities present information about PSS. These statements include the overall financial activities of the school system. PSS operates only with governmental funds. It does not have any fiduciary or proprietary funds.

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 Basic Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

Indirect expense allocations recorded 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.

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 out specific activities or attaining certain objectives in accordance with the fund's special regulations, restrictions or limitations. The fund financial statements provide information about 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.

Federal 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.

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.

Specific revenues earmarked to finance particular programs and activities of the Public School System are accounted for in Non-major Funds. A summary of PSS' Non-major Funds as of September 30, 2019 follows:

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. This is presented as part of Non-major funds.

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

Notes to the Basic Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

CNMI Grants Fund - This fund was established to account for projects that were appropriated without fiscal year limitation by Public Law No. 8-2.

Indirect Costs Fund - This fund, established through directive of the Commissioner of Education, accounts for indirect costs of PSS related to Federal grants.

The PSS 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.

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.

District-wide Fund Financial Statements

The governmental activities in the Statement of Net Position 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 90 days thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred.

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

Notes to the Basic Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

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 and 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 costs to the fiscal year when items are used.

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

Under the terms of federal grant award 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 resources available to finance the program. Expenditures are first applied to restricted resources, when both restricted and unrestricted resources are available.

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. PSS has not reported any amounts that are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to Public Laws and directives issued by the Board of Education, PSS' highest level of decision-making authority. Commitments may be modified or rescinded only through legislation or if Board designated, by Board Resolution.

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

Notes to the Basic Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

The amounts reported as committed as of September 30, 2019 pertain to appropriated funds restricted by Public Law No. 16-10 available at the closure of the Indenture Trust Agreement to fund critical classroom repairs, renovations and paving of public school parking areas. The Commissioner of Education has the spending authority.

Assigned – includes amounts that PSS intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance.

Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

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 CNMI 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, 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 of Education for review and compilation by the Management Committee every October 1st.
2. By the fifth working day of November, the Commissioner of Education presents the budget to the Board of Education (BOE).
3. From November 15th to December 31st, revisions are made as appropriate and as approved by the BOE.
4. By the first working day of February, the budget is presented to the CNMI Senate, House and the Office of the Governor.

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

Notes to the Basic Financial Statements
September 30, 2019

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities and Position

1. Cash and Cash Equivalents

PSS pools money from several funds to facilitate disbursements and investments to maximize investment income.

For purposes of the Statement of Net Position, cash and cash equivalents are defined as cash on-hand, cash in checking and savings accounts, and short-term time certificates of deposit with a maturity date within three months of the date acquired. Time certificates of deposit with original dates greater than ninety days are to be separately classified on the Statement of Net Position.

2. 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 are expensed as incurred.

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

Buildings	20 - 50 years
Building improvements	15 years
Vehicles	5 years
Others	3 - 5 years

3. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an 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, 2019 was \$3,784,102. 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

3. 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 the respective calendar year.

4. Revenues

Revenues are classified as either program or general.

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.

General revenue includes appropriations, interest and other income not identifiable to specific activities.

5. Net Position/Fund Balances

Net position in the district-wide financial statements are classified as investment in capital assets; investment in capital improvement projects in progress; restricted and unrestricted. Restricted net position represents 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 represent amounts that are not appropriated, are legally segregated for a specific purpose, or are restricted by a grant agreement. Designations of fund balance represent tentative management plans that are subject to change.

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(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

6. Inter-fund Balances

The inter-fund balances as of September 30, 2019 pertains to unreimbursed advances between the general fund and the other funds.

PSS uses its general fund for all disbursements and records payments made for other funds as due from other funds in the general fund.

Funds are transferred from the non-major funds as payments to the general fund when drawdowns are received from grantors.

F. New Accounting Standards

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations. GASB Statement No. 83 was effective for the fiscal year ending September 30, 2019. The implementation of this statement did not have a material effect on the PSS's financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 was effective for the fiscal year ended September 30, 2019. The implementation of this statement did not have a material effect on the PSS's financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. GASB Statement No. 87 will be effective for PSS for the fiscal year ending September 30, 2021. Management does not believe that the implementation of this statement will have a material effect on PSS's financial statements.

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(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, continued

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements.

This Statement also requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debts agreements related to significant events of default with finance related consequences, termination events, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This Statement is effective for reporting periods beginning after June 15, 2018. Management does not believe that the implementation of this statement had a material effect on PSS's financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. This Statement is effective for reporting periods beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on PSS's financial statements

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(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, continued

GASB Statement No. 90, *Majority Equity Interest, an Amendment of GASB Statements No. 16 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment.

A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. This Statement is effective for reporting periods beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on PSS's financial statements.

New Accounting Pronouncements

In May 2019, GASB issued Statement No. 91 *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosure. GASB Statement No. 91 will be effective for the fiscal year ending September 30, 2022.

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(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, continued

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The requirements of this Statement will enhance comparability in the application of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements.

This Statement addresses a variety of topics and includes specific provisions about leases; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other than postemployment benefit (OPEB) plan; applicability of Statement No. 73 and 84 to postemployment benefits, measurements of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. GASB Statement No. 92 will be effective for the fiscal year ending September 30, 2020.

In April 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (IBOR)*. The primary objective of the Statement is to address those and other accounting and financial reporting implications of the replacement of IBOR. GASB Statement No. 93 will be effective for the fiscal year ending September 30, 2021.

In March 2020, GASB issued Statement No. 94, *Public-private and Public-public Partnership Arrangements (PPPs)*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). GASB Statement No. 94 will be effective for the fiscal year beginning after June 15, 2022.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic.

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(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, continued

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No.2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities.*

The effective dates of the following pronouncements are postponed by 18 months:

- *Statement No. 87, Leases*
- *Implementation Guide No. 2019-3, Leases.*

In May 2020, GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements (SBITAs)*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. GASB Statement No. 96 will be effective for fiscal years beginning after June 15, 2022.

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(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, continued

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. GASB Statement No. 97 will be effective for fiscal years beginning after June 15, 2021.

PSS is currently evaluating whether or not the above listed new GASB pronouncements will have a significant impact on its financial statements.

G. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the district-wide statement of net position. The net adjustments for 2019 include the following elements:

A. Explanation of certain differences between the governmental fund and the district-wide statement of net position

Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds:

Total capital assets on district-wide financial statements in governmental activities column	\$ 109,795,983
Accumulated depreciation	<u>(33,918,973)</u>
Net capital assets	75,877,010

Accrual for 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:

Compensated absences	<u>(3,784,102)</u>
Total adjustments	\$ <u>72,092,908</u>

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

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

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

The total adjustments for 2019 pertain to the following:

Increase in compensated absences liability	\$ 161,238
Capital outlay expenditures recorded in the Fund Statements but not in the Statement of Activities, this is the excess of the decrease in construction in progress over the amount capitalized	18,538
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.	<u>1,542,292</u>
Total adjustments	\$ <u>1,722,068</u>

(3) Detail Notes on all Funds

Cash and Cash Equivalents

For purposes of the Statement of Net Position, 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, 2019, aggregate carrying amounts deposited with Federal Deposit Insurance Corporation (FDIC) insured banks totaled \$4,685,018. From these deposits, \$500,000 is subject to coverage by FDIC; \$100,907 is deposited in a financial institution not subject to FDIC coverage and the remaining balance exceeds insurable limits. PSS requires collateralization of bank accounts, and the amounts in excess of insurable limits are collateralized by securities owned by the banks. 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 for appropriations and grants, respectively.

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(3) Detail Notes on all Funds, Continued

Other Receivables

Other receivables as of September 30, 2019 consist of the following:

Travel advances	\$ 367,023
Advances to vendors	260,681
Others	<u>431,923</u>
Total other receivables	1,059,627
Allowance	<u>(112,738)</u>
Other receivables, net	\$ <u>946,889</u>

The Board of Education's policy considers travel advances as loans 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.

Capital Assets

Capital asset activities for the year ended September 30, 2019 were as follows:

	Beginning	Additions	Disposal/ Adjustment	Ending
Capital assets not being depreciated:				
Land	\$ 36,647,850	\$ -	\$ -	\$ 36,647,850
Capital assets being depreciated:				
Building and improvements	62,009,081	620,009	-	62,629,090
Vehicles	7,182,302	-	-	7,182,302
Others	<u>3,301,461</u>	<u>35,282</u>	<u>-</u>	<u>3,336,743</u>
Total	<u>72,492,844</u>	<u>655,291</u>	<u>-</u>	<u>73,148,135</u>
Less accumulated depreciation:				
Building and improvements	23,595,788	1,571,763	-	25,167,551
Vehicles	6,070,925	403,545	(541,013)	5,933,457
Others	<u>2,709,970</u>	<u>108,268</u>	<u>(271)</u>	<u>2,817,967</u>
Total	<u>32,376,683</u>	<u>2,083,576</u>	<u>(541,284)</u>	<u>33,918,975</u>
Capital assets being depreciated, net	<u>40,116,161</u>	<u>(1,428,285)</u>	<u>(541,284)</u>	<u>39,229,160</u>
Capital assets, net	76,764,011	(1,428,285)	541,284	75,877,010
Construction in progress	<u>673,828</u>	<u>-</u>	<u>(673,828)</u>	<u>-</u>
Total	\$ <u>77,437,839</u>	\$ <u>(1,428,285)</u>	\$ <u>(132,544)</u>	\$ <u>75,877,010</u>

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(3) Detail Notes on all Funds, Continued

Assets essentially serve all functions; hence depreciation is charged as unallocated expense.

Retirement Plan

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

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

On March 11, 2013, Public Law 18-02 was enacted to amend Public Law 17-82 to clarify those provisions necessary to expedite the refunds and to prevent any further frustration of the process. Included in the public law is the amendment of Section 203(a) of Title 1, Division 8, Part 3, which states that the government obligation to withhold and remit the employee's portion to the employee's defined account shall continue with respect to employees who do not terminate membership in the DB Plan.

Only 30 employees of the PSS did not voluntarily terminate membership in the DB Plan and PSS contributed \$386,693.94, \$554,575 and \$435,506 to the NMISF during the years ended September 30, 2019, 2018 and 2017, respectively.

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(3) Detail Notes on all Funds, Continued

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. PSS is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. PSS's recorded DC contributions for the years ended September 30, 2019, 2018 and 2017 were \$409,471, \$244,973 and \$282,741, respectively, equal to the required contributions for each year.

Members of the DC Plan who have completed five years of government service have a vested balance of 100% of both member and employer contributions plus any earnings thereon.

Unremitted Employer Contribution prior to September 30, 2013

The amount PSS recognized as payable to the NMIRF fund prior to the creation of the Settlement Fund totaled \$26,902,270 including penalties as of September 30, 2013 and the amount due from PSS based on the actuarially determined rate including interest amounted to \$41,016,172. Pursuant to the Court Order, PSS only recognized a liability based on the percentage the Court ordered PSS to remit to the Fund.

PSS believes that the difference of \$14,113,902, as well as the \$26,902,270 is ultimately due from the CNMI central government and not from PSS. The Settlement Order for Federal District Court for the CNMI Case No. 09-00023, which states that the NMIRF shall assign to the CNMI government all rights to collect employer contributions deficient as of August 6, 2013 and related costs from the Autonomous Agencies, or any other CNMI instrumentalities, strengthen PSS' position. In fiscal year 2015, the beginning net position in the Statement of Activities was restated to reverse the liabilities and prior year expenses accrued amounting to \$26,902,270.

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

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(3) Detail Notes on all Funds, Continued

and to retired CNMI Government employees who retire as a result of length of service, disability or age, as well as their dependents.

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 withholdings.

Federal 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.

Related Party Transactions

The CNMI Government appropriated \$37,048,721 for PSS' operational use and \$191,910 for the Board of Education's operations for the fiscal year ended September 30, 2019. There was also a supplemental appropriation of \$3,700,000.

During the year ended September 30, 2019, total utilities expense to CUC amounted to \$1,942,807.

Non-current Liabilities

Changes in non-current liabilities presented in the Statement of Net Position are as follows:

	<u>Balance 9/30/18</u>	<u>Change</u>	<u>Balance 9/30/19</u>	<u>Due in 1 Year</u>	<u>Noncurrent</u>
Compensated absences	\$ <u>3,622,864</u>	\$ <u>161,238</u>	\$ <u>3,784,102</u>	\$ <u>1,083,132</u>	\$ <u>2,700,970</u>

PSS uses its general funds to liquidate its accrued compensated absences. Payments will be drawn from the annual CNMI government appropriation.

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(4) Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. PSS does not have any deferred outflows of resources as of September 30, 2019.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2019, PSS only has one type of deferred inflows of resources arising from grants received with restrictions.

(5) Contingencies

CNMI Contributions

A substantial amount of PSS' funding is provided by appropriations from the CNMI Government. PSS is guaranteed an annual budget of not less than twenty five percent (25%) of general revenues of the CNMI Government. The future of PSS is contingent on its ability to continue to obtain CNMI appropriations.

Financial and Compliance Audits

PSS administers significant financial assistance from the U.S. 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 Uniform Guidance or to financial and compliance audits by the grantor agencies of the Federal Government or their designees.

Lawsuits and Claims

PSS is involved in various legal actions and possible claims arising principally from claims of former employees. The eventual outcome of these matters cannot be reasonably predicted by management and, accordingly, no provisions for any liabilities or potential losses that may result from settlement of these claims have been recorded in the accompanying financial statements.

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(5) Contingencies, continued

Sick Leave

It is the policy of PSS to record expenditures for sick leave when the leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2019 is \$7.572 million.

(6) Commitments

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, \$3,942,411 of outstanding purchase orders and purchase commitments for which goods and services have not been received are not reported in the financial statements as of September 30, 2019.

(7) Risk Management

The CNMI Government is a self-insured entity. The CNMI Government has limited its general liability to individuals to \$100,000 by statute. For this reason, the CNMI government does not maintain any insurance on its buildings, or on its employees. At some future date, PSS may insure some of its assets. As an autonomous agency, PSS is not required to follow the CNMI Government's self-insurance policy. PSS has not experienced any losses for the year ended September 30, 2019 (see note 10 below).

PSS does require performance bonds on all its building projects financed by the CNMI and Federal grants.

(8) Economic Dependency

PSS receives a substantial amount of its support from Federal and local governments. For the fiscal year ending September 30, 2019, 48% and 51% of total revenues were received from local appropriations and federal grants, respectively. 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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(9) Fair Value of Financial Instruments

PSS financial instruments include cash and cash equivalents, receivables from CNMI Government and Federal agencies, and accounts payable. The recorded values of these financial instruments approximate their fair values based on their short-term nature.

PSS categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

(10) Subsequent Events

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through November 2, 2020, which is the date the financial statements were available to be issued. In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S and throughout Micronesia. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. On March 16, 2020, Corona Virus 19 hits the CNMI causing major lockdown of all schools in the islands of Saipan, Tinian and Rota. This has also caused the Central Government Finance Office to reduce PSS' FY 2020 budget to \$19,294,979. due to the sharp decline in the CNMI Government Revenues. This caused PSS to furlough most of its employees. The US Department of Education has formally informed the CNMI's Governor of an additional \$5.58 million for the CNMI under the Governor's Emergency Education Relief (GEER) Fund, as well as \$22.35 million for the Public School System, the CNMI's state education agency.

PUBLIC SCHOOL SYSTEM

SUPPLEMENTAL INFORMATION

Year Ended September 30, 2019

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

(A Component Unit of the CNMI Government)

Combining Balance Sheets
Non-major Funds
For the Year Ended September 30, 2019

	Local CIP Fund ⁽¹⁾	Textbook Fund (15000)	GOB Fund (30000)	Indirect Cost Fund (40000)	Donation and Other Revenue Fund (42000)	Other Federal Fund (60000)	JROTC Army Fund (65000)	Federal Program Income Fund (66000)	Total Non-major Funds
Assets:									
Current Assets:									
Cash	\$ 2,735	\$ 277	\$ -	\$ 13,965	\$ -	\$ -	\$ 20,833	\$ -	\$ 37,810
Receivable from Federal Agencies	-	-	-	-	-	-	-	-	-
Other receivables	-	-	419,980	11,486	-	-	-	-	431,466
Due from other funds	-	-	307,054	774,952	332,977	1,112,345	144,084	73,688	2,745,100
Total assets	\$ 2,735	\$ 277	\$ 727,034	\$ 800,403	\$ 332,977	\$ 1,112,345	\$ 164,917	\$ 73,688	\$ 3,214,376
Liabilities, Deferred Inflows and Fund Balances									
Liabilities:									
Accounts payable and accrued expenses	-	-	-	-	-	-	-	-	-
Due to other funds	1,272,663	3,152	-	-	-	-	-	-	1,275,815
Total liabilities	1,272,663	3,152	-	-	-	-	-	-	1,275,815
Deferred Inflows of Resources:									
Grants received	-	-	-	842,102	-	-	364,917	52,198	1,259,217
Fund Balances:									
Restricted	-	(2,875)	727,034	-	-	1,112,345	(200,000)	-	1,636,504
Assigned	-	-	-	-	332,977	-	-	21,490	332,977
Unassigned	(1,269,928)	-	-	(41,699)	-	-	-	-	(1,290,137)
Total fund balances	(1,269,928)	(2,875)	727,034	(41,699)	332,977	1,112,345	(200,000)	21,490	679,344
Total Liabilities, Deferred Inflows and Fund Balances	\$ 2,735	\$ 277	\$ 727,034	\$ 800,403	\$ 332,977	\$ 1,112,345	\$ 164,917	\$ 73,688	\$ 3,214,376

⁽¹⁾ Fund codes 17000 and 18000

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 Year Ended September 30, 2019

	Local CIP Fund ⁽¹⁾	Textbook Fund (15000)	GOB Fund (30000)	Indirect Cost Fund (40000)	Other Revenue Fund (42000)	Federal Fund (60000)	Army Fund (65000)	Program Income Fund (66000)	Total Non-major Funds
Revenues:									
Federal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,601	\$ 317,496	\$ 38,858	\$ 371,955
Local	-	-	-	-	261,125	-	-	-	261,125
Charges for services	-	-	-	826,642	-	-	-	-	826,642
Total revenues	-	-	-	826,642	261,125	15,601	317,496	38,858	1,459,722
Expenditures:									
Instructional programs:									
Regular	-	-	-	-	366,356	-	-	-	366,356
Special	-	-	-	-	-	-	-	38,858	38,858
Co-curricular	-	-	-	-	-	38,653	317,496	-	356,149
Student services	-	-	-	-	-	-	-	-	-
Total instructional programs	-	-	-	-	366,356	38,653	317,496	38,858	761,363
Supporting services:									
General administration	-	-	-	826,642	-	-	-	-	826,642
School administration	-	-	-	-	-	-	-	-	-
Individual programs	-	-	-	-	-	-	-	-	-
Other	56,541	-	109,387	-	-	-	-	-	165,928
Total supporting services	56,541	-	109,387	826,642	-	-	-	-	992,570
Total Expenditures	56,541	-	109,387	826,642	366,356	38,653	317,496	38,858	1,753,933
Excess (deficiency) of revenues over expenditure	(56,541)	-	(109,387)	-	(105,231)	(23,052)	-	-	(294,211)
Fund balance (deficit), beginning of year	(1,213,387)	(2,875)	836,421	(41,699)	438,208	1,135,397	(200,000)	21,490	973,555
Fund balance (deficit), end of year	\$ (1,269,928)	\$ (2,875)	\$ 727,034	\$ (41,699)	\$ 332,977	\$ 1,112,345	\$ (200,000)	\$ 21,490	\$ 679,344

⁽¹⁾ Fund codes 17000 and 18000

See accompanying notes to basic financial statements.

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

Schedule of Expenditures/Expense (By Natural Classification)
Year Ended September 30, 2019

	General Fund	Federal Fund	Non-Major Funds	Total Expenditures	Conversion	Total Expenses
Salaries and wages	\$ 33,375,318	\$ 9,892,422	\$ 517,212	\$ 43,784,952	\$ 161,238	\$ 43,946,190
Professional services	787,391	14,969,819	107,515	15,864,725	-	15,864,725
Employee benefits	7,109,747	1,943,776	124,437	9,177,960	-	9,177,960
Books and instruction materials	253,010	5,843,137	235,280	6,331,427	-	6,331,427
Travel	212,631	2,344,053	324,610	2,881,294	-	2,881,294
Repairs and maintenance	1,122,836	325,373	151,675	1,599,884	673,829	2,273,713
Utilities	832,784	1,103,554	6,469	1,942,807	-	1,942,807
Supplies and materials	189,582	1,310,287	82,663	1,582,532	-	1,582,532
Depreciation	-	-	-	-	1,542,292	1,542,292
Rental	208,692	956,030	48,485	1,213,207	-	1,213,207
Indirect costs	-	915,585	13,788	929,373	-	929,373
Licenses and fees	17,822	536,561	2,006	556,389	-	556,389
Cleaning services	380,755	81,582	32,719	495,056	-	495,056
Dues and subscriptions	184,260	288,423	5,695	478,378	-	478,378
Miscellaneous	245,095	361,600	30,892	637,587	-	637,587
Communications	244,007	79,544	7,926	331,477	-	331,477
Controlled assets	162,099	780,510	-	942,609	(620,009)	322,600
Fuel and lubricants	192,722	51,263	5,184	249,169	-	249,169
Printing and photocopying	25,134	185,051	16,809	226,994	-	226,994
Security services	112,079	382	22,317	134,778	-	134,778
Food items	65,845	4,695	16,206	86,746	-	86,746
Freight and handling	38,996	6,806	911	46,713	-	46,713
Insurance	27,840	2,660	-	30,500	-	30,500
Advertising	4,174	24,195	1,134	29,503	-	29,503
Furniture and fixtures <5,000	15,568	-	-	15,568	(9,989)	5,579
Bank charges	3,237	-	-	3,237	-	3,237
Small tools and equipment	-	25,293	-	25,293	(25,293)	-
Total expenditures (page 21)	\$ 45,811,624	\$ 42,032,601	\$ 1,753,933	\$ 89,598,158	\$ 1,722,068	\$ 91,320,226
				Total Expenses (page 19)		\$ 91,320,226

See accompanying notes to basic financial statements.

PUBLIC SCHOOL SYSTEM

**INDEPENDENT AUDITOR'S REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

Year Ended September 30, 2019

BURGER & COMER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the State Board of Education of the
Commonwealth of the Northern Mariana Islands
Public School System

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands Public School System as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements and have issued our report thereon dated November 2, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered PSS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PSS' internal control. Accordingly, we do not express an opinion on the effectiveness of PSS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2019-001 through 2019-005, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PSS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PSS' Response to Findings

PSS' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PSS' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BURGER & COMER, P.C.

Saipan, Commonwealth of the Northern Mariana Islands

November 2, 2020

BURGER & COMER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the State Board of Education of the
Commonwealth of the Northern Mariana Islands
Public School System

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of the Northern Mariana Islands Public School System's (PSS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the PSS' major federal programs for the year ended September 30, 2019. PSS' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the PSS' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the PSS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the PSS' compliance.

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Opinion on Each Major Federal Program

In our opinion, the PSS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

Report on Internal Control over Compliance

Management of the PSS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the PSS' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the PSS' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001 to 2019-005 that we consider to be significant deficiencies.

PSS' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. PSS' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BURGER & COMER, P.C.

Saipan, Commonwealth of the Northern Mariana Islands

November 2, 2020

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

Federal Grantor/Program Title	CFDA Number	Expenditures
<u>U.S. Department of Agriculture</u>		
Direct Program:		
National School Lunch Program	10.555	\$ 12,439,439
Emergency Food Assistance Program	10.568	<u>232,236</u>
Total U.S. Department of Agriculture		<u>12,671,675</u>
<u>U.S. Department of Education</u>		
Direct Program:		
Consolidated Grants to the Outlying Areas	84.403	17,237,003
Special Education - Grants to States (IDEA, Part B)	84.027	5,103,845
Special Education - Grants for Infants and Families	84.181	460,259
School Emergency Grant Program	84.184Q	15,953
Project Serve	84.184S	262,778
Project Serve	84.938	1,158,670
Striving Readers	84.371	<u>91,844</u>
Total U.S. Department of Education		<u>24,330,352</u>
<u>U.S. Department of Health and Human Services</u>		
Direct Programs:		
Head Start	93.600	3,493,676
Personality Responsibility Education	93.092	553,013
ANA -Project Traditional Technology	93.587	<u>226,723</u>
Sub-total Direct Programs		<u>4,273,412</u>
Total U.S. Department of Health and Human Services		<u>4,273,412</u>
Sub-total carried forward		<u>\$ 41,275,439</u>

See accompanying notes to the schedule of expenditures of federal awards.

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

Federal Grantor/Program Title	CFDA Number	Expenditures
Sub-total brought forward		\$ 41,275,439
<u>Corporation for National and Community Service</u>		
Direct Program:		
AmeriCorps	94.006	293,474
Total Corporation for National and Community Service		<u>293,474</u>
<u>U.S. Department of the Interior</u>		
Direct Program:		
Technical Assistance Programs	11.550	463,688
Total U.S. Department of the Interior		<u>463,688</u>
Total expenditures		
Expenditures Federal Fund		\$ 42,032,601
Expenditures included in nonmajor funds		-
Expenditures included in General Fund		<u>-</u>
Total expenditures		<u>\$ 42,032,601</u>
Total expenditures		
Expenditures Federal Fund		\$ 42,032,601
Expenditures included in nonmajor funds		-
Expenditures included in General Fund		<u>-</u>
Program income		<u>-</u>
Total expenditures		<u>\$ 42,032,601</u>
Reconciliation		
Expenditures Federal Fund		\$ 42,032,601
Expenditures included in nonmajor funds		-
Expenditures included in General Fund		<u>-</u>
Total Expenditures		<u>\$ 42,032,601</u>

See accompanying notes to the schedule of expenditures of federal awards.

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, 2019

(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 No. 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 Uniform Guidance 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 Interior for fiscal year 2019. The approved rates are as follows:

Unrestricted	5.55%
Restricted rate	4.20%

The restricted rate is applicable only to U.S. Department of Education programs and is based on total direct costs, less capital expenditures and pass-through funds. Pass-through funds are normally defined as major subcontracts, payments to participants, stipends to eligible recipients and subgrants, all of which normally require minimal administrative effort.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?

___ yes X no

- Significant deficiency(ies) identified that are not considered to be material weaknesses?

X yes ___ none reported

Noncompliance material to financial statements noted?

___ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?

___ yes X no

- Significant deficiency(ies) identified that are not considered to be material weaknesses?

X yes ___ none reported

Type of auditors' report issued on compliance:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR § 200.516 (a)?

X yes ___ no

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

SECTION I – SUMMARY OF AUDITORS’ RESULTS, Continued

Federal Awards

Identification of major programs:

<u>CFDA Number</u>	<u>Description</u>	<u>Federal Expenditures</u>
84.403	Consolidated Grant to the Outlying Areas	\$ 17,237,003
84.027	Special Education Grants to States	5,103,845
93.600	Head Start	3,493,676
10.555	National School Lunch Program	<u>12,439,439</u>
Total Federal Expenditures-Major Programs		<u>\$ 38,273,963</u>
Total Federal Expenditures		<u>\$ 42,032,601</u>
Percentage of total awards tested		91 %

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 1,260,978
3% of the total awards expended

Auditee qualified as low-risk auditee

X yes ___ no

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2019-001, Human Resources

Finding type: Significant deficiency in Internal Control

Criteria:

Personnel records should include all documents required by PSS regulation § 60-30 and standard operating procedures. The employee should verify and sign the time card.

Condition:

For 1 or 1.11% of the 90 payroll items selected for pay period 9/1/2019-9/14/2019, the employee did not sign and verify the time card.

<u>Employee</u>		<u>Payment</u>	
<u>Number</u>	<u>Pay period</u>	<u>Date</u>	<u>Remarks</u>
18766	9/1/2019-9/14/2019	9/27/2019	Missing signature

Cause:

PSS did not adhere to policies and procedures for the maintenance of Human Resources records.

Effect:

PSS is not in compliance with its regulations and there could be misstatements of payroll expenses. Fraud could exist and not be detected.

Recommendation:

All employees must have timecards and the timecards should include the employee's signature. PSS should strengthen training on the payroll process, implement and monitor the procedures.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2019-002, Travel Advance Liquidation

Finding type: Significant deficiency in Internal Control

Criteria:

Public School System Rules and Regulation § 60-20-721 (g) (5) and § 60-20-720 (g) (7) for commuters within and travelers outside the CNMI, respectively, states that Commuters must file a travel voucher with supporting documentation within thirty working days upon completion of each individual commute as set forth on the commute form and travelers must file a travel voucher with supporting documentation within fifteen working days upon completion of travel.

Furthermore, within thirty and fifteen working days, for travels within and outside the CNMI, respectively, after the voucher was or should have been submitted, the travel section of the Fiscal and Budget Office will issue the employee a statement notifying him/her of any discrepancies in the submitted documents and all amounts owed to PSS. This statement shall include the following:

- i. The date of each commute resulting in an outstanding balance;
- ii. The place of each commute resulting in an outstanding balance;
- iii. The amount advanced for each commute;
- iv. The amount owed for each commute;
- v. The total amount owed;
- vi. Any discrepancies or problems with the submitted documents; and
- vii. Notification that the amount will be deducted from the employee's paycheck for the next pay period unless resolved.

Condition:

During the test of PSS compliance with the travel and commuting policies we noted that sixty two (62) or 61% of ninety (90) travel authorizations selected were not liquidated within the prescribed period.

Cause:

The cause of the above condition is the lack of adherence to established policies and procedures regarding the liquidation of travel advances.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2019-002, Travel Advance Liquidation, Continued

Effect:

Unliquidated travel advances have the effect of understating PSS expenses. If the travel is covered by a Federal grant, unliquidated travel advances means that PSS has not submitted the expense for reimbursement and therefore has not collected money from the grantor for such travel.

Travel advances received for travel authorizations that are not timely liquidated pursuant to PSS Regulations may be subject to tax pursuant to Internal Revenue Service Publication 5137, *Fringe Benefit Guide for Office of Federal, State and Local Governments* and 26 CFR 1.622, *Reimbursements and other expense allowance arrangements*.

The Publication states that, under an accountable plan, allowances or reimbursements paid to employees for job-related expenses are excluded from wages and are not subject to withholding. An allowance or reimbursement policy (not necessarily a written plan) that includes the following requirements is considered an accountable plan:

- There is a business connection to the expenditure.
- There is adequate accounting by the recipient within a reasonable period of time.
- Excess reimbursements or advances are returned within a reasonable period of time. IRC §62(c); Reg. §1.62(c)(2)-2(c)(2)

Recommendation:

PSS should consider including as taxable compensation the travel advances issued to travelers who did not timely liquidate. Travelers might be enticed to timely liquidate their advances. In addition, we recommend that PSS comply with its policies and procedures and regulations regarding travel advances.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

Finding No. 2019-003, Overdraft of the BOG general fund

Finding type: Significant deficiency in Internal Control

Criteria:

PSS Bank of Guam General fund had an ending bank balance of \$2,372,912. PSS had cumulative outstanding checks of \$3,965,193 at September 30, 2019 and did issue the checks to the payees. The material amount of outstanding checks resulted in a negative book balance of \$1,631,548.

PSS did not have sufficient cash balances to cover all the checks written and released before September 30, 2019.

Cause:

PSS prepared and issued checks without having adequate funds to cover those checks because they were assured by the CNMI Department of Finance that funding would be provided shortly after the end of the fiscal year.

Effect:

This caused the financial statement to show a significant bank overdraft. PSS ran the risk of issuing checks that would not be honored by its bank.

Recommendation:

PSS should not release checks if there is insufficient cash to cover those checks. PSS finance department should verify that there are sufficient funds before releasing the checks.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

Finding No. 2019-004, General ledger is not reconciled to subsidiary records

Finding type: Significant deficiency in Internal Control

Criteria:

Management is responsible for establishing internal control policies and procedures that provide reasonable assurance that assets are safeguarded against loss resulting from unauthorized use and the transactions are executed in accordance with management's authorizations.

Condition:

PSS did not reconcile accounts receivable and the accounts payable retails to the general ledger in a timely manner.

Effect:

Failure to reconcile the general ledger balance to the accounts receivable and accounts payable account subsidiary ledgers could result in errors not being detected in a timely manner and could result in misstatements of the financial statements.

Recommendation:

PSS should reconcile accounts receivable and accounts payable subsidiary ledgers to the general ledger on a monthly basis. This will help ensure that all invoices, checks, and adjustments are recorded in a timely manner in the proper accounts.

Finding No. 2019-005, Bank Account Reconciliations

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

Finding type: Significant deficiency in Internal Control

Criteria:

The BOG payroll account was not reconciled to the general ledger at September 30, 2019.

Condition:

PSS did not reconcile BOG payroll account to the general ledger in a timely manner.

Cause:

PSS experienced the departure of some of the finance department staff during the fiscal year, thus increasing the workload of the remaining staff and leading to delays in completing the reconciliations.

Effect:

PSS cannot detect and correct errors in a timely manner and management does not have knowledge of the available cash balances prior to disbursing funds.

Recommendation:

To prevent future occurrences, PSS needs to make sure all bank accounts are reconciled in a timely manner. We recommend that all bank reconciliations be completed before the end of the subsequent month.



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VICE-CHAIRWOMAN

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SECRETARY/TREASURER

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TEACHER REPRESENTATIVE:
Paul Miura

NON PUBLIC SCHOOL REP.
Galvin S. Deleon Guerrero

STUDENT REPRESENTATIVE:
Piannah Rosej Gregorio

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

A. FINANCIAL STATEMENT FINDINGS

Reference No.	Findings	Status
2016-001	Travel Authorization	Resolved.
2016-002	Travel Advance Liquidation	Not corrected, similar condition noted in Finding No. 2019-002
2016-003	Human Resources	Resolved
2017-001	Human Resources	Resolved
2017-003	Travel Advances	Resolved
2017-004	Travel Advance Liquidation	Resolved
2018-001	Human Resources	Not corrected, similar condition noted in Finding No. 2019-001

STUDENTS FIRST

All CNMI Public Schools are accredited by the North Central Association Commission on Accreditation and School Improvement, an accreditation division of AdvancED.

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

Summary of Unresolved Questioned Costs
Year Ended September 30, 2019

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference No.	Findings	Status
2016-004	Travel Advance Liquidation	Not corrected, similar condition noted in Finding No. 2019-002
2016-005	Sole Source Justification	Resolved.
2016-006	Health Certificate	Resolved.
2017-002	After-the-fact Ratification	Resolved.
2017-005	After-the-fact Ratification	Resolved.
2018-002	After-the-fact Ratification	Resolved.