

PUBLIC SCHOOL SYSTEM

---

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

Years Ended September 30, 2005 and 2004

---

PUBLIC SCHOOL SYSTEM  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS  
 September 30, 2005

<u>Items</u>	<u>Page No.(s)</u>
I. INTRODUCTORY SECTION	
Table of Contents	I-II
Transmittal Letter	III-X
Principal Officials	XI
Organizational Chart	XII
II. FINANCIAL SECTION	
A. Independent Auditor's Report on Financial	
Statements	1-2
Management's Discussion & Analysis	3-14
Statements of Net Assets	15
Statements of Activities	16
Balance Sheets - Governmental Funds	17
Statements of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	18
Reconciliation of the Governmental Funds	
Statement of Revenues, Expenditures and Changes in Fund Balance with the District-Wide Statement of Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balance Budget (US GAAP Basis) and Actual - General Fund	20
Statements of Revenues, Expenditures and Changes in Fund Balance Budget (US GAAP Basis) and Actual - General Fund (With comparative Actual Amounts for FY ended September 30, 2004)	21
Combining Balance Sheet - Non-major Funds	22
Combining Statements of Revenues, Expenditures and Changes in Fund Balance	23
Notes to Financial Statements	24-40
B. Supplementary Information	
Schedule of Expenditures of Federal Awards	41-50
Notes to the Schedule of Expenditures of Federal Awards	51

PUBLIC SCHOOL SYSTEM  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

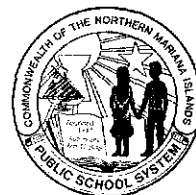
TABLE OF CONTENTS, CONTINUED  
September 30, 2005

<u>Items</u>	<u>Page No(s).</u>
III. SINGLE AUDIT REPORTS	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting and on Compliance Performed Accordance with <i>Government Auditing Standards</i>	52-53
Independent Auditor's Report on Compliance and Internal Control Applicable to Each Major Program and on the Schedule of Expenditures of Federal Awards	54-55
Schedule of Findings and Questioned Costs	
Section I - Summary of Auditor's Results	56-57
Section II - Financial Statement Findings	58-72
Section III - Federal Awards Findings and Questioned Costs	73-81
IV. SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	82-90
V. SUMMARY OF UNRESOLVED QUESTIONED COSTS	91
VI. AUDITEE RESPONSE ON UNRESOLVED QUESTIONED COSTS	92-95



# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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



Roman C. Benavente  
Chairman

Dino M. Jones  
Vice Chairman

Marja Lee C. Taitano  
Secretary/Treasurer

**Members**  
Herman T. Guerrero  
Lucia Blanco-Maratita

Scott Norman  
Non Public School Rep.

Alvie Sanchez  
Student Representative

Ambrose Bennett  
Teacher Representative

Commissioner of Education  
Rita Hocog Inos, Ed. D

May 31, 2006

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

The Comprehensive Annual Financial Report of the Public School System (PSS) of the Commonwealth of the Northern Mariana Islands (CNMI) for the year ended September 30, 2005, is hereby submitted as mandated by both local ordinances and territorial statutes. These ordinances and statutes require that the PSS issue annually a report on its financial position and activity and that an independent firm of certified public accountants will audit this report. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds and account groups of the PSS. All disclosures necessary to enable the reader to gain an understanding of the PSS' activities have been included. The comprehensive annual financial report is presented in three sections: introductory, financial, and single audit.

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

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

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

The financial reporting entity includes all the funds and account groups of the Public School System.

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

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

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

#### FINANCIAL STATEMENTS

This letter of transmittal should be read in conjunction with the Management's Discussion and Analysis (pages 3-14), which focuses on current activities, accounting changes and currently known facts.

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

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

The Commonwealth of the Northern Mariana Islands Public School System is one comprehensive school district serving the entire Commonwealth; including the islands of Saipan, Rota, and Tinian. The system was created through the enactment of Public Law 6-10 in January 1988. For school year 2004-2005, it served over 11,000 students from pre-school through 12th grade in 12 elementary schools, 5 middle schools, 5 high schools, and 10 headstart centers.

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

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

The school system has over 1,000 full-time and over 150 part-time employees and is the largest employer in the government sector. The school system has nearly 550 regular classroom teachers, not including media specialists, counselors, psychologists, etc., and allots regular classroom teachers at a teacher/student ratio of 1:20 for kindergarten, grades 1,2,3; 1:25 for grades 4,5,6; 1:30 for grades 7-12. All schools are accredited through the Western Association of Schools and Colleges.

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

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

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

The economy of the area is stabilized by the presence of a fairly large garment-manufacturing complex. Tourism from Japan is also a major source of revenue for the CNMI. The government of the CNMI is the largest employer on the islands. The CNMI economy has been seriously affected by the changes in trade treaties in 2005. Since Japan has been in a prolonged economic slump, the tourist industry has also been in a slump.

The quantity and quality of the instructional programs of the school system are directly dependent on the funding provided and on effective management and efficient use of those funds. We recognize the important trust and responsibility we are given in the management of public resources and continue to be vigilant and trustworthy in fulfilling that responsibility. During the course of 2004-2005, we aggressively pursued ways to reduce costs and improve efficiency by eliminating administrative overtime and out-of-system travel, moving purchasing deadlines to earlier dates, and restricting special projects that cross fiscal years. Such efforts have allowed the school system to end the fiscal year 2004-2005 with a strong financial position.

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

#### PUBLIC SCHOOL SYSTEM MISSION AND GOAL

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

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

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

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

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

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

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

Measurement: Percentage of students in under-performing groups at or above grade level will increase.

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

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

Strive to provide an adequate compensation package for all employees.

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

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

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

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

Support and expand the recruitment and training of mentors.

Measurement: Decrease in turnover.

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

Develop a system-wide strategic communications plan.

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

Measurement: Community survey of school system's publics.

### Capital Improvements

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

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

### Funding for the Public Schools

The cost of public education in the CNMI is financed primarily by the Gross Receipts Tax of business owners and the Chapter II Tax of the individual. The CNMI has a centralized tax system, and not a localized property tax system, the CNMI Public School System allocates its \$36.084 million on a per student ratio for non-personnel expenditures. In conjunction with the \$25.802 million Federal funds, the CNMI allocates its Personnel budget on an impartial preset staffing pattern. The local funding level for the Public School System has remained flat since 1999.

### Enrollments

The students enrolled in the Public School System have increased from 9,500 in 1998 to 11,000 in 2005. This represents a 15.7% increase in seven years. The teachers have increased from 464 in 1998 to 554 in 2005. Teachers funded by consolidated Federal funds increased from 37 teachers in 1998 to 68 teachers in 2005. Federal funds also paid for 72 Special Education teachers in FY 2005. The Federal funds in 2005 paid for 116 teacher aides as opposed to 51 teacher aides in 1998. As can be seen, the increased payroll for the additional teachers and teacher aides has been financed by additional Federal funds. The Central Office staff was reduced, and additional Federal funds were obtained to finance the growth of the Public School System.



## Internal Control

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

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

The CNMI Planning and Budgeting Act mandates the adoption of an annual balanced budget resolution by July 1 each year. If the Budget is not passed by the Legislature and the Governor, PSS operates its budgets on a continuing resolution from fiscal year 1999. Fiscal year 2005, which begins on October 1, 2004 and ends on September 30, 2005 was a budget on the Continuing Resolution from 1999. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget and in funds provided by the Federal, state, and local governments. The final budget, as continued from the fiscal year 1999, is reflected in the financial section.

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

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

## General Government Functions and General Fund Balance

The following schedule presents a summary of the budgets, using the modified accrual basis, of the Commonwealth funds and PSS funds for the fiscal years ended September 30, 1997 thru September 30, 2005.

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

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

### Capital Projects Fund

Capital projects were financed by the issuance of a \$15,000,000 Bond, and the matching funds of \$15,000,000 by the CNMI government. In 2001, two elementary schools and one high school were completed. The remainder of the \$30 million is for modernization of Rota, Tinian, and Saipan physical plants.

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

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

### Cash Management Policies and Practices

PSS requests drawdowns from the Federal government as the funds are expended. PSS Federal programs are funded on a reimbursement basis, program costs are paid for using PSS local funds before reimbursement are requested from the Federal grantors. Bank of Guam is used as the bank for transactions due to its banking relationship with the CNMI government. The payroll for the Public School System is processed by the CNMI Finance Department.

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

### Risk Management

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

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

Other Information

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


Acknowledgments

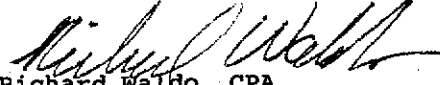
The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the finance division. We would like to express our appreciation to all members of the division who assisted and contributed to the preparation of this report and to the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

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

Respectfully submitted,

  
David M. Borja, D.B.A.  
Acting Commissioner

  
Tim Thornburgh  
Acting Deputy Commissioner  
for Administration

  
Richard Waldo, CPA  
Director of Finance

PUBLIC SCHOOL SYSTEM

PRINCIPAL OFFICIALS

Year ended September 30, 2005

BOARD OF EDUCATION

	<u>Position</u>	<u>Term Expires</u>
Mr. Roman C. Benavente	Chairperson	2008
Mr. Egredino Jones	Vice Chairman	2008
Ms. Marja Lee Taitano	Secretary/Treasurer	2008
Mr. Herman T. Guerrero	Member	2006
Ms. Frances H. Diaz	Member	2006
Mr. Scott Norman	Non Public School Representative	2005
Ms. Ambrose Bennett	Teacher Representative	2008

OFFICERS OF THE SCHOOL SYSTEM

Rita Hocog Inos, Ed. D.	Commissioner of Education
Dr. David Borja	Deputy Commissioner for Administration
Ms. Rita A. Sablan	Acting Associate Commissioner for Secondary Education
Mr. Richard Waldo, CPA	Director of Finance
Mr. Tim Thornburgh	Federal Programs Officer
Mr. Charley Kenty	Human Resources Officer

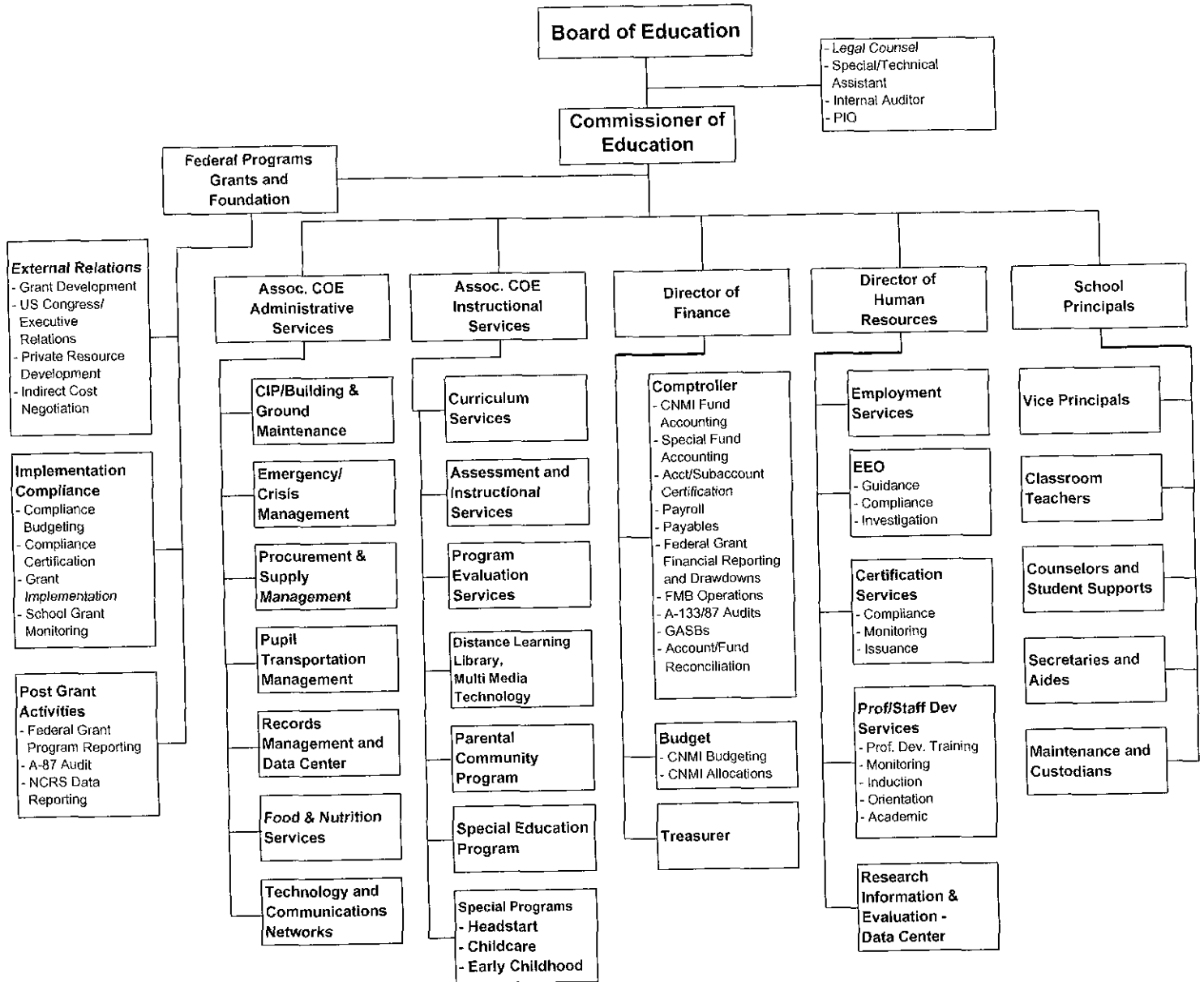
OFFICIALS ISSUING REPORT

Mr. Richard Waldo, CPA	Director of Finance
Ms. Florida A. Grizzard	Comptroller

DIVISION ISSUING REPORT

Finance

# Public School System Organization Chart



PUBLIC SCHOOL SYSTEM

---

INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS

---

Years Ended September 30, 2005 and 2004

J. Scott Magliari  
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

Saipan Office:  
PMB 297 PPP Box 10000  
Saipan, MP 96950  
Tel. No. (670) 233-1837  
Fax No. (670) 233-8214

Guam Office:  
P.O. Box 12734  
Tamuning, Guam 96931  
Tel. No. (671) 472-2680  
Fax No. (671) 472-2686

Palau Office:  
P.O. Box 1266, Koror, PW 96940  
Tel. No. (680) 488-8615  
Fax No. (680) 488-8616

INDEPENDENT AUDITOR'S REPORT

The Board of Education  
Public School System

I have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregating fund information of the Public School System (PSS), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 2005 and 2004, and for the years then ended. These financial statements are the responsibility of PSS' management. My responsibility is to express an opinion on these financial statements based on my audits.

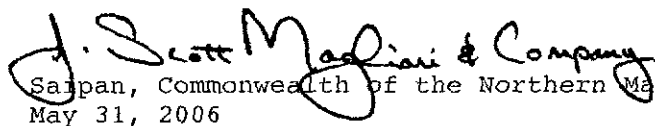
I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate fund information of PSS as of September 30, 2005 and 2004, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) and Budgetary Comparison Information on pages 3 to 14 and pages 20 to 21, respectively, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. This supplementary information is the responsibility of the management of PSS. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit this information and express no opinion on it.

In accordance with the *Government Auditing Standards*, I have also issued my report dated May 31, 2006 on my consideration of the PSS' internal control over financial reporting and on my tests of its compliances with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting, or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

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

  
Saipan, Commonwealth of the Northern Mariana Islands  
May 31, 2006



PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis  
September 30, 2005 and 2004

This section of the CNMI Public School System (PSS) financial report represents our discussion and analysis of the financial performance of the PSS for the year ended September 30, 2005. This information should be read in conjunction with the audited financial statements included in this report (pages 15 to 39).

Financial Highlights

The Public School System enrollment of 11,244 students in FY 2004 increased to 11,718 students for FY 2005.

The Public School System's net assets decreased \$2,446,468 in FY 2005. This decrease was caused by a \$1.3 million decrease in current assets, and a \$1.1 adjustment of the capital assets net of accumulated depreciation.

As of the close of the fiscal year 2005, the Public School System's total net assets is \$81,056,161. This includes the capital assets, net of accumulated depreciation, of \$79,066,700.

Overview of the Financial Statements

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

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

*MD&A*

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

*District-Wide Statements*

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

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

*Statement of Net Assets*

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

## PUBLIC SCHOOL SYSTEM

### Management's Discussion and Analysis September 30, 2005 and 2004

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

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

#### *Statement of Activities*

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

#### *Fund Financial Statements*

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

#### *Balance Sheet*

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

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

#### *Reconciliation from Agency-wide to Fund Statements*

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

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

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

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

PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis  
September 30, 2005 and 2004

The PSS' major funds are:

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

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

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

CONDENSED COMPARATIVE DATA

*Assets, Liabilities and Net Assets*

The PSS' net assets, on the district-wide basis, increased by \$44,952 from the previous year. The increase was the result of excess revenues over expenses in FY 2005. However, the 2005 change in net assets is lower than prior year, despite higher revenues.

Change in Net Assets			
	FY 2005	FY 2004	FY 2003
Net assets, beginning	\$ 83,502,629	\$ 83,172,358	\$ 85,116,708
Revenues	73,414,824	61,638,298	61,428,570
Expenditures	73,338,189	61,420,275	63,372,920
Excess (deficiency) of revenue over expenditures	76,635	218,023	(1,944,350)
Current year restatements	(2,523,103)	112,248	-
Net assets, ending	\$ 81,056,161	\$ 83,502,629	\$ 83,172,358

Net Assets			
	Sept 30, 2005	Sept 30, 2004	Increase (Decrease)
Current assets	\$ 7,061,281	\$ 8,391,786	\$ (1,330,505)
Noncurrent assets	82,223,392	82,047,324	176,068
Total assets	89,284,673	90,439,110	(1,154,437)
Current liabilities	3,798,783	2,667,002	1,131,781
Noncurrent liabilities	4,429,729	4,269,479	160,250
Total liabilities	8,228,512	6,936,481	1,292,031
Net Assets	\$ 81,056,161	\$ 83,502,629	\$ (2,446,468)
Investment in capital assets Restricted for improvement projects in progress	\$ 79,066,700	\$ 80,139,357	\$ (1,072,657)
Unrestricted	3,142,141	1,907,967	1,234,174
	(1,152,680)	1,455,305	(2,607,985)
Net Assets	\$ 81,056,161	\$ 83,502,629	\$ (2,446,468)

PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis  
September 30, 2005 and 2004

Net Assets			
	Sept 30, 2004	Sept 30, 2003	Increase (Decrease)
Current assets	\$ 8,391,786	\$ 9,918,120	\$ (1,526,334)
Noncurrent assets	82,047,324	81,576,119	471,205
<b>Total assets</b>	<b>90,439,110</b>	<b>91,494,239</b>	<b>(1,055,129)</b>
Current liabilities	2,667,002	4,170,617	(1,503,615)
Noncurrent liabilities	4,269,479	4,151,264	118,215
<b>Total liabilities</b>	<b>6,936,481</b>	<b>8,321,881</b>	<b>(1,385,400)</b>
<b>Net Assets</b>	<b>\$ 83,502,629</b>	<b>\$ 83,172,358</b>	<b>\$ 330,271</b>
Investment in capital assets	\$ 80,139,357	\$ 79,687,750	\$ 451,607
Restricted for improvement projects in progress	1,907,967	1,888,369	19,598
Unrestricted	1,455,305	1,596,239	(140,934)
<b>Net Assets</b>	<b>\$ 83,502,629</b>	<b>\$ 83,172,358</b>	<b>\$ 330,271</b>

Net assets is an indicator of the fiscal health of the School System. Assets for governmental activities exceeded liabilities by \$81,056,161 and \$83,502,629 as of September 30, 2005 and 2004, respectively. The largest component of net assets is invested in capital assets amounting to \$79,066,700 and \$80,098,157 at September 30, 2005 and 2004, respectively.

Net assets decreased by \$2,446,468 in fiscal year 2005 and increased by \$330,271 in fiscal year 2004. The decrease in net assets in fiscal year 2005 is primarily due to restatements in fund balance due to an increase in accumulated depreciation for the change in useful life of vehicles from eight (8) years to five (5) years and the reversal of revenue recorded for uncollected lapsed funds.

PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis  
September 30, 2005 and 2004

Revenues

Total revenues for FY 2005 was \$73,414,824, a 19% increase from FY 2004. While total revenue for FY 2004 was \$61,638,298, a 0.4% increase from FY 2003.

Revenues			
	Sept 30, 2005	Sept 30, 2004	Increase (Decrease)
Program revenues			
Charges for services	\$ 140,100	\$ 142,745	\$ (2,645)
Operating grants and contributions	34,635,642	23,539,319	11,096,323
	<u>34,775,742</u>	<u>23,682,064</u>	<u>11,093,678</u>
General revenues			
Unrestricted CNMI appropriations	37,404,908	37,796,320	(391,412)
Restricted for capital improvements	1,234,174	19,598	1,214,576
Miscellaneous, unrestricted	-	140,316	(140,316)
	<u>38,639,082</u>	<u>37,956,234</u>	<u>682,848</u>
	<u>\$ 73,414,824</u>	<u>\$ 61,638,298</u>	<u>\$ 11,776,526</u>

Revenues			
	Sept 30, 2004	Sept 30, 2003	Increase (Decrease)
Program revenues			
Charges for services	\$ 142,745	\$ 116,152	\$ 26,593
Operating grants and contributions	23,539,319	23,492,622	46,697
	<u>23,682,064</u>	<u>23,608,774</u>	<u>73,290</u>
General revenues			
Unrestricted CNMI appropriations	37,796,320	37,794,725	1,595
Restricted for capital improvements	19,598	-	19,598
Miscellaneous, unrestricted	140,316	25,071	115,245
	<u>37,956,234</u>	<u>37,819,796</u>	<u>136,438</u>
	<u>\$ 61,638,298</u>	<u>\$ 61,428,570</u>	<u>\$ 209,728</u>

Revenues are classified as either general or program.

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

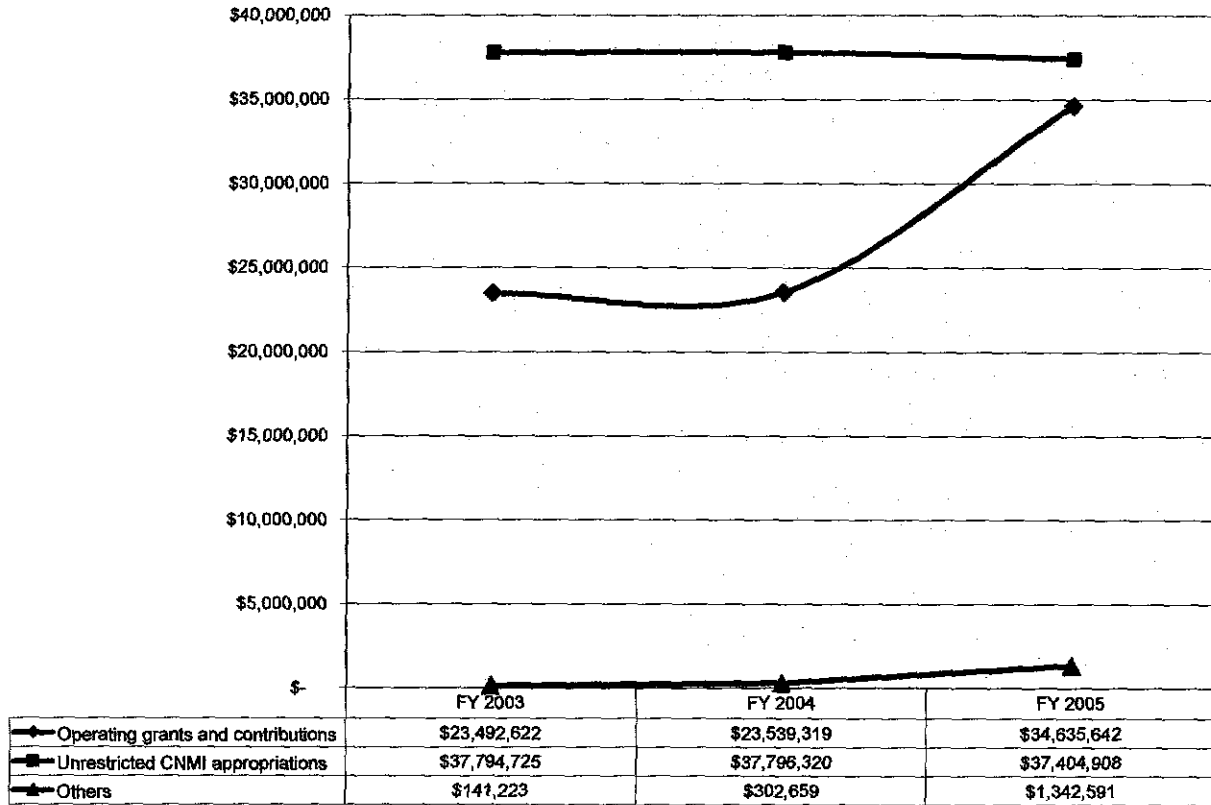
The increase in program revenues is primarily due to higher Federal grants received in FY 2005.

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

PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis  
September 30, 2005 and 2004

Exhibit  
I



The chart above shows PSS revenue over the past three years. Unrestricted CNMI appropriations constitute 51% of FY 2005 revenues and are the highest source of revenue for the PSS.

Operating grants and revenues primarily consists of Federal grants is the second highest source of PSS revenue. These have exhibited the highest increase over the past three years.

PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis  
September 30, 2005 and 2004

*Expenses*

Total district-wide expenses by function were as follows:

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

Total governmental activities expenses increased by \$11,917,914 or 19% as compared to FY 2004. This is due to higher Federal grants in FY 2005 and FY 2004 Federal grants which flowed through FY 2005, particularly under the student services functions which include the Consolidated Grant and the Nutrition Assistance Grant.

OVERALL FINANCIAL POSITION

The overall financial position of the PSS as shown in the fund financial statements (balance sheet and statements of revenues, expenditures, and changes in fund balance) declined by \$1,046,366 or 14% during FY 2005. This is primarily due to the restatement for the lapsed CNMI appropriations.

FUND ANALYSIS

	Fund Balance			
	General Fund	Capital Projects Fund	Non-Major Fund	Total
Fund balance, 9/30/04	\$ 3,314,480	\$ 1,939,650	\$ (6,823,447)	\$ (1,569,317)
Increase (decrease) reserve for encumbrances	(80,120)	-	(369,590)	(449,710)
Current year restatement	(1,322,270)	-	-	(1,322,270)
	<u>1,912,090</u>	<u>1,939,650</u>	<u>(7,193,037)</u>	<u>(3,341,297)</u>
Fund balance, 9/30/05	1,319,392	3,142,141	(7,565,563)	(3,104,030)
Increase (decrease) in fund balance	\$ (592,698)	\$ 1,202,491	\$ (372,526)	\$ 237,267
Percentage change	-18%	62%	5%	-15%

Both general and non-major funds' expenses exceeded revenues which resulted to decrease in fund balance for both funds. Capital project funds increased; however such increase is due to increase in capital projects in progress and is a restricted fund, thus can not be utilized by PSS except for transfer to fixed assets when the projects are completed.

PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis  
September 30, 2005 and 2004

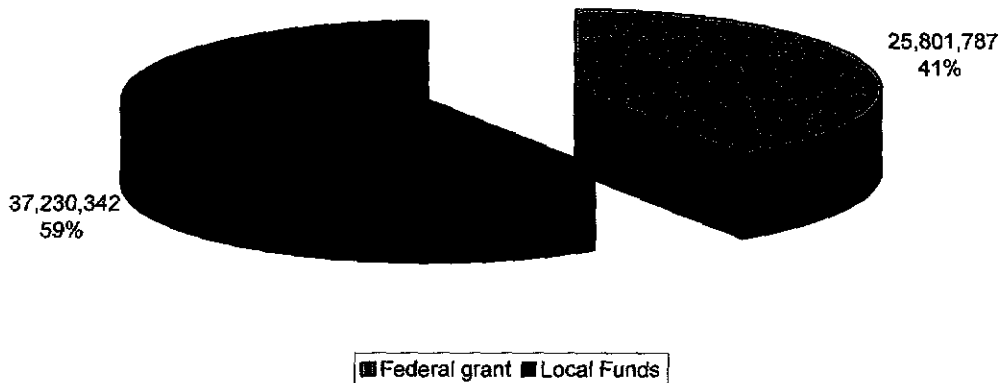
GENERAL FUND BUDGETARY HIGHLIGHTS

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
<b>EXPENDITURES:</b>					
Current operations:					
Instructional programs:					
Regular	\$ 28,384,076	\$ -	\$ 28,384,076	\$ 28,686,004	\$ (301,928)
Special	2,773,357	-	2,773,357	2,741,469	31,888
Co-curricular	1,008,977	-	1,008,977	994,169	14,808
Supporting services:					
General administration	370,074	-	370,074	355,230	14,844
School administration	4,112,889	-	4,112,889	4,446,499	(333,610)
Individual programs	575,565	-	575,565	594,235	(18,670)
Total expenditures	37,224,938	-	37,224,938	37,817,606	(592,668)
Deficiency of revenues over expenditures	(37,224,938)	-	(37,224,938)	(37,817,606)	592,668
Other financing sources:					
Operating transfers in	37,224,938	-	37,224,938	37,224,908	(30)
Deficiency of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ -	\$ -	\$ (592,698)	\$ 592,638

There were no budget revisions in FY 2005. Total expenditures exceeded budget by \$592,668. The school administration and regular instruction functions significantly contributed to the unfavorable variance. PSS sourced Federal programs to finance such deficits.

Exhibit II

PSS Budget FY 2005





PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis  
September 30, 2005 and 2004

Federal and Local Budget Review

Year	Total Funding	Federal Funding		Local Funding	
		Amount	%	Amount	%
1991	\$35,407,990	\$10,000,000	28%	\$25,407,990	72%
1992	\$41,214,621	\$11,000,000	27%	\$30,214,621	73%
1993	\$40,194,355	\$11,000,000	27%	\$29,194,355	73%
1994	\$41,214,621	\$11,000,000	27%	\$30,214,621	73%
1995	\$43,320,500	\$11,000,000	25%	\$32,320,500	75%
1996	\$43,320,500	\$11,000,000	25%	\$32,320,500	75%
1997	\$53,763,700	\$12,000,000	22%	\$41,763,700	78%
1998	\$55,100,000	\$13,000,000	24%	\$42,100,000	76%
1999	\$53,730,342	\$16,000,000	30%	\$37,730,342	70%
2000	\$53,280,342	\$17,000,000	32%	\$36,280,342	68%
2001	\$54,230,342	\$17,000,000	31%	\$37,230,342	69%
2002	\$55,230,342	\$18,000,000	33%	\$37,230,342	67%
2003	\$60,230,342	\$23,000,000	38%	\$37,230,342	62%
2004	\$60,730,342	\$23,500,000	39%	\$37,230,342	61%
2005	\$63,032,129	\$25,801,787	41%	\$37,230,342	59%

The contribution of local funding to the total funding has varied between 59% to 78% for the 15-year period from 1991 to 2005.

CAPITAL ASSETS

The PSS' investment in capital assets as of September 30, 2005 is \$79,066,702 net of accumulated depreciation. Depreciation expense for the year was \$1,627,773.

Capital Assets			
	Sept 30, 2005	Sept 30, 2004	Sept 30, 2003
Capital assets not depreciated			
Land	\$ 36,647,850	\$ 36,647,850	\$ 36,647,850
Capital assets, net of accumulated depreciation			
Building and improvements	40,659,778	41,416,117	41,721,912
Vehicle	1,350,107	1,332,386	1,035,733
Others	408,965	743,004	282,255
	42,418,850	43,491,507	43,039,900
	\$ 79,066,700	\$ 80,139,357	\$ 79,687,750

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

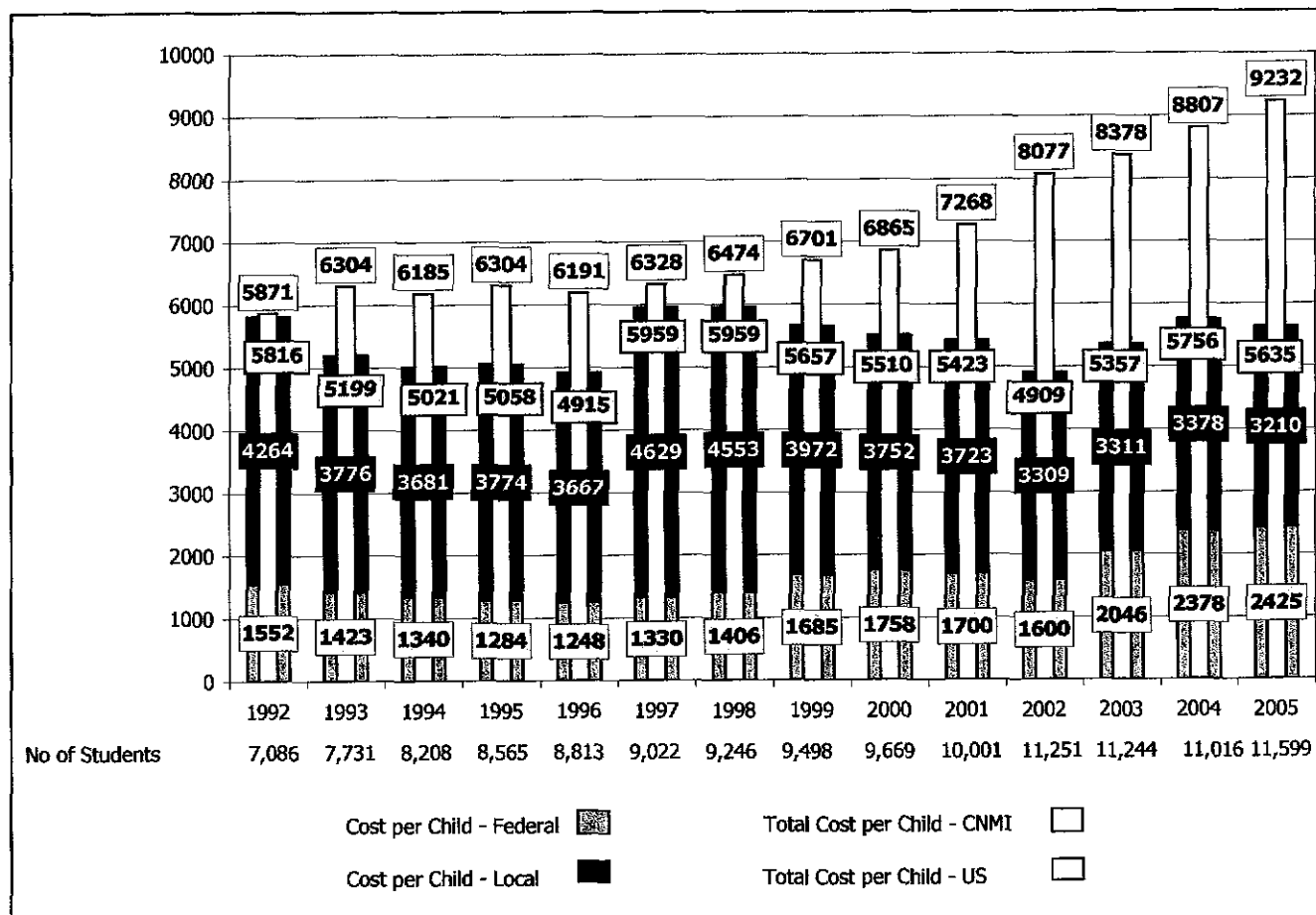
PUBLIC SCHOOL SYSTEM

Management's Discussion and Analysis  
September 30, 2005 and 2004

OTHER MATTERS

Exhibit III

COST PER CHILD



Public School Cost per Child: Comparing CNMI to US Average

Key: National - total costs are actual expenditures for 1992-2001 (Source: NCES)  
 National - total costs 2002-2005 are projections (Source: NCES)  
 CNMI - total costs 1992-2003 are actual expenditures (Source: PSS FBO)  
 CNMI - total costs 2004-2005 are projections (Source: PSS FBO)

The enrollment in 1992 was 7100 students while the enrollment in 2004 was 11,718 students. With this increase in enrollment and local funding remaining constant, locally funded cost per child dropped from \$4,264 in 1992 to \$3,210 in 2005.

The total cost per child in CNMI of \$5,635 is \$3,597 or 39% lower than the \$9,232 cost per child in the US.

## PUBLIC SCHOOL SYSTEM

### Management's Discussion and Analysis September 30, 2005 and 2004

In 1998, PSS operated 16 schools with a total budget of \$37 million with approximately 9000 students. Since 1998, PSS has added six schools: Dandan Elementary, Kagman Elementary and High Schools, Sinapalo Elementary, ChaCha Middle School and Saipan Southern High School.

In FY 2005, PSS operated 22 schools with approximately 11,000 students with the same \$37 million budget. These new schools received their budgets from existing schools. The cost for these schools in FY 2005 is \$8.0 million. Approximately \$2.0 million is the reduction in total budget due to transferring teachers from the old schools to the new schools. However, all the general and administration costs of these schools were financed by reducing Central Office and reducing other existing schools' budgets. Some of the teacher costs of these new schools were financed by reallocating Federal funds. Under the new budget rules passed by the legislature, the Commissioner of Education is the responsible spending authority. This flexibility has enabled the Public School System to respond to any school's needs without the permission of the CNMI government.

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

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

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

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

#### Headstart and Special Education

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

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

PUBLIC SCHOOL SYSTEM

Statements of Activities  
For the Years Ended September 30, 2005 and 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>2005</u>	<u>2004</u>
Governmental activities:					
Instruction:					
Regular	\$ 28,693,622	\$ -	\$ -	\$(28,693,622)	\$(27,952,642)
Special education	10,203,335	-	7,424,294	(2,779,041)	(3,065,403)
Co-curricular	1,481,950	-	486,461	(995,489)	(927,139)
Student services	<u>20,513,093</u>	<u>140,100</u>	<u>20,270,051</u>	<u>(102,942)</u>	<u>14,332</u>
Total instruction	<u>60,892,000</u>	<u>140,100</u>	<u>28,180,806</u>	<u>(32,571,094)</u>	<u>(31,930,852)</u>
Support services:					
General administration	3,035,350	-	2,533,201	(502,149)	(158,532)
School administration	4,789,489	-	226,445	(4,563,044)	(4,219,710)
Other support	179,188	-	-	(179,188)	(183,760)
Community	2,633,160	-	2,633,160	-	-
Individual programs	779,967	-	1,062,030	282,063	(309,018)
Depreciation - unallocated	<u>1,029,035</u>	<u>-</u>	<u>-</u>	<u>(1,029,035)</u>	<u>(936,339)</u>
Total support services	<u>12,446,189</u>	<u>-</u>	<u>6,454,836</u>	<u>(5,991,353)</u>	<u>(5,807,359)</u>
Total governmental activities	<u>\$ 73,338,189</u>	<u>\$ 140,100</u>	<u>\$ 34,635,642</u>	<u>\$(38,562,447)</u>	<u>\$(37,738,211)</u>
Unrestricted CNMI appropriations				37,404,908	37,796,320
Capital improvement, CNMI				1,234,174	19,598
Miscellaneous, unrestricted				-	140,316
Subtotal, general revenues				<u>38,639,082</u>	<u>37,956,234</u>
Changes in Net Assets				76,635	218,023
Current year restatement				(2,523,103)	112,248
Net assets - beginning				<u>83,502,629</u>	<u>83,172,358</u>
Net assets - ending				<u>\$ 81,056,161</u>	<u>\$ 83,502,629</u>

See accompanying notes to basic financial statements.

PUBLIC SCHOOL SYSTEM

Balance Sheets  
Governmental Funds  
September 30, 2005 and 2004

	General Fund	Capital Projects Fund	Non-major Funds	Total Governmental Funds	
				2005	2004
<b>ASSETS</b>					
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 2,642,996	\$ -	\$ -	\$ 2,642,996	\$ 3,081,656
Receivables from CNMI	1,412,884	46,735	13,231	1,472,850	4,377,578
Receivables from Federal	-	-	1,302,440	1,302,440	664,876
Other receivables	1,302,656	-	-	1,302,656	4,523
Advances, net	248,045	-	92,294	340,339	314,434
Due from other funds	1,550,460	-	1,444,437	2,994,897	1,864,052
	7,157,041	46,735	2,852,402	10,056,178	10,307,119
Capital improvement projects in progress	-	3,156,692	-	3,156,692	1,888,369
<b>TOTAL ASSETS</b>	<b>\$ 7,157,041</b>	<b>\$ 3,203,427</b>	<b>\$ 2,852,402</b>	<b>\$ 13,212,870</b>	<b>\$ 12,195,488</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES:</b>					
Accrued payroll and others	\$ 1,719,385	\$ -	\$ -	\$ 1,719,385	\$ 1,204,917
Vouchers payable	621,625	-	352	621,977	1,400,424
Deferred revenues	1,364,458	-	90,335	1,454,793	59,033
Due to other funds	1,259,535	61,286	1,674,076	2,994,897	1,864,052
Other liabilities	2,628	-	-	2,628	2,628
<b>TOTAL LIABILITIES</b>	<b>4,967,631</b>	<b>61,286</b>	<b>1,764,763</b>	<b>6,793,680</b>	<b>4,531,054</b>
<b>FUND BALANCES:</b>					
Reserved for:					
Encumbrances	870,018	-	8,283,612	9,153,630	9,233,750
Capital Improvement projects	-	3,142,141	-	3,142,141	1,939,650
	870,018	3,142,141	8,283,612	12,295,771	11,173,400
Unreserved:					
Undesignated	1,319,392	-	(7,195,973)	(5,876,581)	(3,508,966)
<b>TOTAL FUND BALANCES</b>	<b>2,189,410</b>	<b>3,142,141</b>	<b>1,087,639</b>	<b>6,419,190</b>	<b>7,664,434</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 7,157,041</b>	<b>\$ 3,203,427</b>	<b>\$ 2,852,402</b>		

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

The cost of capital assets is \$ 88,278,090  
Accumulated depreciation is 9,211,390 79,066,700 80,139,357

Capital improvement project funded by the CNMI Government reported as current financial resources in the governmental fund balance sheets. - (31,683)

Long-term liability that are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term at year-end pertains to:

Compensated absences (4,429,729) (4,269,479)

Total net assets - governmental activities \$ 81,056,161 \$ 83,502,629  
See accompanying notes to the basic financial statements.

PUBLIC SCHOOL SYSTEM

Statements of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds  
For the Years Ended September 30, 2005 and 2004

	General	Capital	Non-Major	Total Governmental Funds	
	Fund	Projects Fund	Funds	2005	2004
REVENUES:					
Federal	\$ -	\$ -	\$ 32,102,441	\$ 32,102,441	\$ 20,871,047
Local	-	1,202,491	2,533,201	3,735,692	2,879,467
Charges for services	-	-	140,100	140,100	142,745
<b>TOTAL REVENUES</b>	<b>-</b>	<b>1,202,491</b>	<b>34,775,742</b>	<b>35,978,233</b>	<b>23,893,259</b>
EXPENDITURES:					
Current operations:					
Instructional programs:					
Regular	28,686,004	-	-	28,686,004	27,947,516
Special	2,741,469	-	7,424,294	10,165,763	9,696,233
Co-curricular	994,169	-	486,461	1,480,630	1,379,854
Student services	-	-	20,641,377	20,641,377	10,546,195
	<u>32,421,642</u>	<u>-</u>	<u>28,552,132</u>	<u>60,973,774</u>	<u>49,569,798</u>
Supporting services:					
General administration	355,230	-	2,495,313	2,850,543	2,814,560
School administration	4,446,499	-	226,445	4,672,944	4,367,190
Individual programs	594,235	-	1,062,030	1,656,265	1,335,803
Other	-	-	179,188	179,188	183,760
	<u>5,395,964</u>	<u>-</u>	<u>3,962,976</u>	<u>9,358,940</u>	<u>8,701,313</u>
Community services	-	-	2,633,160	2,633,160	2,316,656
Capital Outlay:					
Equipment and Vehicles	-	-	-	-	19,598
<b>TOTAL EXPENDITURES</b>	<b>37,817,606</b>	<b>-</b>	<b>35,148,268</b>	<b>72,965,874</b>	<b>60,607,365</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(37,817,606)	1,202,491	(372,526)	(36,987,641)	(36,714,106)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	<u>37,224,908</u>	<u>-</u>	<u>-</u>	<u>37,224,908</u>	<u>37,209,928</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(592,698)	1,202,491	(372,526)	237,267	495,822
INCREASE (DECREASE) IN RESERVE FOR ENCUMBRANCES	(80,120)	-	(369,590)	(449,710)	(915,816)
CURRENT YEAR RESTATEMENTS	(1,322,270)	-	-	(1,322,270)	(385,385)
UNRESERVED FUND (DEFICIT) BALANCES, beginning of year	<u>3,314,480</u>	<u>1,939,650</u>	<u>(6,823,447)</u>	<u>(1,569,317)</u>	<u>(763,938)</u>
UNRESERVED FUND (DEFICIT) BALANCES, end of year	1,319,392	3,142,141	(7,565,563)	(3,104,030)	(1,569,317)
RESERVE FOR ENCUMBRANCES	<u>870,018</u>	<u>-</u>	<u>8,653,202</u>	<u>9,523,220</u>	<u>9,233,751</u>
FUND BALANCE, end of the year	<u>\$ 2,189,410</u>	<u>\$ 3,142,141</u>	<u>\$ 1,087,639</u>	<u>\$ 6,419,190</u>	<u>\$ 7,664,434</u>

See accompanying notes to basic financial statements.

PUBLIC SCHOOL SYSTEM

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures  
And Changes in Fund Balance with the District-wide Statement of Activities  
For the Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Total net changes in fund balances - governmental funds	\$ 237,267	\$ 495,822
Amounts reported for governmental activities in the statement of activities are different because:		
Certain activities in the capital improvement project fund are reported in statement of changes in fund balance.	31,683	(31,683)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds for the current year, the activities consist of:		
Compensated absences	(160,250)	(20,933)
Capital outlays to purchase or build capital assets are reported as expenditures in governmental funds. However, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.		
Capital outlays	\$ 1,595,708	
Depreciation expense	<u>(1,627,773)</u>	<u>(32,065)</u>
	<u>(32,065)</u>	<u>(225,183)</u>
Changes in net assets of governmental activities	<u>\$ 76,635</u>	<u>\$ 218,023</u>

See accompanying notes to basic financial statements.

PUBLIC SCHOOL SYSTEM

Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget (US GAAP Basis) and Actual - General Fund  
For the Year Ended September 30, 2005

	General Fund				Variance Favorable (Unfavorable)
	Budget		Actual		
	Original	Revision			
REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-	-
EXPENDITURES:					
Current operations:					
Instructional programs:					
Regular	28,384,076	-	28,384,076	28,686,004	(301,928)
Special	2,773,357	-	2,773,357	2,741,469	31,888
Co-curricular	1,008,977	-	1,008,977	994,169	14,808
Supporting services:					
General administration	370,074	-	370,074	355,230	14,844
School administration	4,112,889	-	4,112,889	4,446,499	(333,610)
Individual programs	575,565	-	575,565	594,235	(18,670)
Total expenditures	37,224,938	-	37,224,938	37,817,606	(592,668)
Deficiency of revenues over expenditures	(37,224,938)	-	(37,224,938)	(37,817,606)	(592,668)
Other financing sources:					
Operating transfers in	37,224,938	-	37,224,938	37,224,908	(30)
Excess of revenues and other financing sources over expenditures and other financing uses	-	-	-	(592,698)	(592,698)
Current year restatements	-	-	-	(1,322,270)	(1,322,270)
Other change in fund balance:					
Reserve for encumbrances	-	-	-	(80,120)	(80,120)
FUND BALANCE, beginning of year	-	-	-	3,314,480	3,314,480
FUND BALANCE, end of year	\$ -	\$ -	\$ -	\$ 1,319,392	\$ 1,319,392

See accompanying notes to basic financial statements.



PUBLIC SCHOOL SYSTEM

Statements of Revenues, Expenditures and Changes in Fund Balance  
 Budget(US GAAP Basis) and Actual - General Fund  
 For the Year Ended September 30, 2005  
 (With Comparative Actual Amounts for the fiscal year ended September 30, 2004)

	2005		Variance Favorable (Unfavorable)	2004
	Budget	Actual		Actual
REVENUES	\$ -	\$ -	\$ -	\$ 140,316
Total revenues	-	-	-	140,316
EXPENDITURES:				
Current operations:				
Instructional programs:				
Regular	28,384,076	28,686,004	(301,928)	27,947,516
Special	2,773,357	2,741,469	31,888	2,931,628
Co-curricular	1,008,977	994,169	14,808	926,251
Supporting services:				
General administration	370,074	355,230	14,844	350,344
School administration	4,112,889	4,446,499	(333,610)	4,141,290
Individual programs	575,565	594,235	(18,670)	627,756
Other	-	-	-	183,760
Total expenditures	37,224,938	37,817,606	(592,668)	37,108,545
Deficiency of revenues over expenditures	(37,224,938)	(37,817,606)	(592,668)	(36,968,229)
Other financing sources:				
Operating transfers in	37,224,938	37,224,908	(30)	37,209,928
Excess of revenues and other financing sources over expenditures and other financing uses	-	(592,698)	(592,698)	241,699
Current year restatements	-	(1,322,270)	(1,322,270)	1,107,975
Other change in fund balance:				
Reserve for encumbrances	-	(80,120)	(80,120)	(171,337)
FUND BALANCE, beginning of year	-	3,314,480	3,314,480	2,136,143
FUND BALANCE, end of year	\$ -	\$ 1,319,392	\$ 1,319,392	\$ 3,314,480

See accompanying notes to basic financial statements.

PUBLIC SCHOOL SYSTEM

Combining Balance Sheets - Non-major Funds  
September 30, 2005 and 2004

	Federal Grants	Local Donations	CNMI Grants	Indirect Costs	Total	
	Fund	Fund	Fund	Fund	2005	2004
<u>ASSETS</u>						
Receivables from CNMI	\$ -	\$ (1,508)	\$ 14,739	\$ -	\$ 13,231	\$ 45,357
Receivables from Federal	1,138,474	(2,312)	-	166,278	1,302,440	664,876
Advances, net	92,294	-	-	-	92,294	110,637
Due from other funds	890,617	522,901	-	30,919	1,444,437	1,261,007
	<u>\$ 2,121,385</u>	<u>\$ 519,081</u>	<u>\$ 14,739</u>	<u>\$ 197,197</u>	<u>\$ 2,852,402</u>	<u>\$ 2,081,877</u>
 <u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Vouchers payable	\$ 352	\$ -	\$ -	\$ -	\$ 352	\$ 352
Accrued payroll and others	23,300	15,423	-	20,137	58,860	-
Deferred revenue	-	31,474	-	-	31,474	16,843
Due to other funds	683,173	320,503	155,161	515,240	1,674,077	604,517
Total liabilities	<u>706,825</u>	<u>367,400</u>	<u>155,161</u>	<u>535,377</u>	<u>1,764,763</u>	<u>621,712</u>
Fund balances (deficits):						
Reserved for encumbrances	7,452,188	831,424	-	-	8,283,612	8,283,612
Unreserved	(6,037,628)	(679,743)	(140,422)	(338,180)	(7,195,973)	(6,823,447)
Total (deficits) fund balances	<u>1,414,560</u>	<u>151,681</u>	<u>(140,422)</u>	<u>(338,180)</u>	<u>1,087,639</u>	<u>1,460,165</u>
	<u>\$ 2,121,385</u>	<u>\$ 519,081</u>	<u>\$ 14,739</u>	<u>\$ 197,197</u>	<u>\$ 2,852,402</u>	<u>\$ 2,081,877</u>

See accompanying notes to the basic financial statements.

PUBLIC SCHOOL SYSTEM

Combining Statements of Revenues, Expenditures, and Changes in Fund Balance  
Non-major funds  
For the Years Ended September 30, 2005 and 2004

	Federal Grants	Local Donations	CNMI Grants	Indirect Costs	Total Non-major funds	
	Fund	Fund	Fund	Fund	2005	2004
<b>REVENUES:</b>						
Federal	\$ 32,102,441	\$ -	\$ -	\$ -	\$ 32,102,441	\$ 20,851,449
Other local	-	1,164,722	24,027	1,344,452	2,533,201	2,687,870
Charge for services	-	140,100	-	-	140,100	142,745
<b>TOTAL REVENUES</b>	<b>32,102,441</b>	<b>1,304,822</b>	<b>24,027</b>	<b>1,344,452</b>	<b>34,775,742</b>	<b>23,682,064</b>
<b>EXPENDITURES:</b>						
Current operations:						
Instructional programs:						
Regular	-	-	-	-	-	-
Special	7,424,294	-	-	-	7,424,294	6,764,605
Co-curricular	486,461	-	-	-	486,461	453,603
Student services	20,270,051	371,326	-	-	20,641,377	10,546,195
	28,180,806	371,326	-	-	28,552,132	17,764,403
Supporting services:						
General administration	-	1,060,679	-	1,434,634	2,495,313	2,464,216
School administration	226,445	-	-	-	226,445	225,900
Individual programs	1,062,030	-	-	-	1,062,030	708,047
Other	-	-	179,188	-	179,188	-
	1,288,475	1,060,679	179,188	1,434,634	3,962,976	3,398,163
Community services	2,633,160	-	-	-	2,633,160	2,316,656
<b>TOTAL EXPENDITURES</b>	<b>32,102,441</b>	<b>1,432,005</b>	<b>179,188</b>	<b>1,434,634</b>	<b>35,148,268</b>	<b>23,479,222</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>-</b>	<b>(127,183)</b>	<b>(155,161)</b>	<b>(90,182)</b>	<b>(372,526)</b>	<b>202,842</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating transfers in	-	-	-	-	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>-</b>	<b>(127,183)</b>	<b>(155,161)</b>	<b>(90,182)</b>	<b>(372,526)</b>	<b>202,842</b>
<b>CURRENT YEAR RESTATEMENTS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,237,839)</b>
<b>(DEFICITS) FUND BALANCE, beginning of year</b>	<b>(6,037,628)</b>	<b>(552,560)</b>	<b>14,739</b>	<b>(247,998)</b>	<b>(6,823,447)</b>	<b>(4,788,450)</b>
<b>DEFICITS, end of year</b>	<b>\$ (6,037,628)</b>	<b>\$ (679,743)</b>	<b>\$ (140,422)</b>	<b>\$ (338,180)</b>	<b>\$ (7,195,973)</b>	<b>\$ (6,823,447)</b>

See accompanying notes to the basic financial statements.

## PUBLIC SCHOOL SYSTEM

### Notes to the Financial Statements September 30, 2005 and 2004

#### (1) Summary of Significant Accounting Policies

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

The PSS basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing governmental accounting and financial reporting principles 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 educations programs in the CNMI is under the direction of the CMNI Board of Education (BOE), which consists of five voting members elected at-large on a nonpartisan basis: one from Rota, one from Tinian, and three from Saipan. The Commissioner of Education, who is appointed by the Board of Education, is responsible for administering the PSS in accordance with applicable laws and Board policies.

Pursuant to CNMI Constitutional Amendment 38, the public education school system is guaranteed an annual budget of not less than fifteen percent (15%) of the general revenues of the CNMI Government. This budgetary appropriation may not be reprogrammed for other purposes, and any unencumbered fund balance at the end of a fiscal year shall be available for reappropriation.

#### B. Basis of Presentation

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

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

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

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

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

PSS reports the following major governmental funds:

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

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

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

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting

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

*Government-wide Fund Financial Statements*

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

*Government Fund Financial Statements*

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

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

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

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

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

PSS has implemented GASB Statement No. 34, *Basic Financial Statements - and Managements Discussion and Analysis - for State and Local Governments as amended by GASB Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - Omnibus, which sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses for either fund category or governmental and enterprise combined) for determination of major funds.* These new standards provide for significant changes in terminology and presentation and for the inclusion of Management's Discussion and Analysis as required supplementary information.

D. Budgetary Data

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

Pursuant to the approved policies and regulations of the Public School System, 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 respective budgets to the Commissioner for review and compilation by the Management Committee every October 1.
2. By the fifth working day of November, the Commissioner presents the budget to the Board.
3. From November 15 to December 31, revisions are made as appropriate and as approved by the Board.
4. By the first working day of February, the budget is presented to the Senate, House of Representatives and the Office of the Governor.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity

1. Cash and Cash Equivalents

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

2. Capital Assets

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

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

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

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

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

3. Long-term Obligations

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

4. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a 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, 2005 and 2004 were \$4,429,729 and \$4,269,479, respectively. No expenditure is reported for these amounts. Additional accruals are charged directly to the unreserved fund balance. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.



PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

4. Compensated Absences, Continued

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

5. Net Assets/Fund Balances

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

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

The governmental fund types classify fund balances as follows:

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

Unreserved - the portion of total fund balance available for appropriation, which is uncommitted at year end.

F. New Accounting Standards

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

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

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

In May 2004, GASB issued Statement No. 44, "*Economic Condition Reporting: The Statistical Section*", an amendment to NCGA Statement 1. GASB Statement No. 44 improves the understandability and usefulness of statistical section information and further adds information from the new financial reporting model for State and Local governments required by GASB Statement No. 34. The provisions of this Statement are effective for reporting periods beginning after June 15, 2005. PSS does not believe that the implementation of this Statement will have a material effect on its financial statements.

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

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

G. Accounting Standards Not Yet Adopted

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

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

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustments for 2005 and 2004 consists of several elements as follows:

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

<u>Description</u>	<u>2005</u>	<u>2004</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds (total capital assets on government-wide statement in governmental activities column) less accumulated depreciation	\$ 88,278,090 ( 9,211,390)	\$ 88,435,847 ( 8,296,488)
Net capital assets	79,066,700	80,139,359
Capital improvement project	-	( 31,683)
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	( 4,429,729)	( 4,269,479)
Total adjustment	<u>\$ 74,636,971</u>	<u>\$ 75,838,197</u>

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

The governmental statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The total adjustments of 2005 and 2004 pertains to the following:

<u>Description</u>	<u>2005</u>	<u>2004</u>
Certain activities in the Capital Improvement Project fund is reported in the statement of changes in fund balance.	\$ 31,683	(\$ 31,683)
Compensated absences	( 160,250)	( 20,933)
Capital outlay expenditures recorded in the Statement of Activities.	1,595,708	1,114,032
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements.	( 1,627,773)	( 1,339,215)
Total adjustments	<u>(\$ 160,632)</u>	<u>(\$ 277,799)</u>

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(3) Detail Notes on all Funds

Cash and Cash Equivalents

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

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

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

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

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

For purposes of the Statement of Net Assets, cash is defined as amounts in demand deposits as well as short-term investments with a maturity date within three months from the date acquired. As of September 30, 2005 and 2004, the total amounts deposited with the Federal Deposit Insurance Corporation (FDIC) insured banks were \$4,511,540 and \$2,914,758, respectively. From these deposits, \$ 727,467 in 2005 and \$522,562 in 2004 were subject to coverage by FDIC with the remaining balance exceeding insurable limits. PSS does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk. PSS has not experienced any losses on these deposits.

As of September 30, 2005 and 2004, PSS did not have any qualifying investments required for disclosure in accordance with GASB Statement No. 40.

Estimates

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(3) Detail Notes on all Funds, Continued

Accounts Receivable

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

Receivables at the government-wide level at September 30, 2005 and 2004 are as follows:

Accounts receivable - September 30, 2005

	<u>Receivable from CNMI</u>	<u>Receivable from Federal Agencies</u>
Governmental activities:		
General Fund	\$ 1,412,884	\$ 1,302,440
Other governmental activities	<u>59,966</u>	<u>-</u>
Total	<u>\$ 1,472,850</u>	<u>\$ 1,302,440</u>

Accounts receivable - September 30, 2004

	<u>Receivable from CNMI</u>	<u>Receivable from Federal Agencies</u>
Governmental activities:		
General Fund	\$ 4,280,940	\$ 697,002
Other governmental activities	<u>13,231</u>	<u>-</u>
Total	<u>\$ 4,294,171</u>	<u>\$ 697,002</u>

Lapsed CNMI appropriations of \$1,322,231 were reclassified from accounts receivable to other receivables. Fund balance was adjusted for previous revenues recognized related to these lapsed funds and were reclassified to deferred revenue as of September 30, 2005.

Deferred Revenues

In government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to being earned. In the governmental fund financial statements, deferred revenue represent monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The deferred revenue in the governmental fund types has resulted primarily from federal funds received in advance of eligible expenditures.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(3) Detail Notes on all Funds, Continued

Travel Advances

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

Travel advances are reported net of an allowance for doubtful accounts of \$179,884 and \$130,761 at September 30, 2005 and 2004, respectively.

Capital Assets

Capital asset activity for the year ended September 30, 2005 and 2004 were as follows:

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(3) Detail Notes on all Funds, Continued

Capital Assets, Continued

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

	<u>2005</u>	<u>2004</u>
Individual programs	\$ 220,490	\$ 148,362
Special education	198,811	133,775
School administration	116,545	78,420
General administration	50,156	33,749
Regular	7,618	5,126
Student services	3,798	2,556
Co-curricular	<u>1,320</u>	<u>888</u>
	598,738	402,876
Unallocated depreciation	<u>1,029,035</u>	<u>936,339</u>
Total	<u>\$1,627,773</u>	<u>\$1,339,215</u>

Retirement Plan

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

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

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(3) Detail Notes on all Funds, Continued

Retirement Plan, Continued

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

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

<u>Fiscal Year</u> <u>Ended</u>	<u>Required</u> <u>Contribution</u>	<u>Percentage of Required</u> <u>Contribution Contributed</u>
9/30/05	\$ 8,587,077	100%
9/30/04	8,391,306	100%
9/30/03	7,985,986	100%
9/30/02	6,090,507	100%

Medical and Life Insurance Benefits

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

Grants

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



PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(3) Detail Notes on all Funds, Continued

Transfer-in from CNMI Government

Pursuant to Public Law 10-34, the CNMI government appropriated \$37,209,928 for PSS' operational use for the years ended September 30, 2005 and 2004, respectively.

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

	<u>2005</u>	<u>2004</u>
Receivable, beginning	\$ 4,280,940	\$ 3,704,569
Appropriation	37,209,928	37,209,928
Reprogramming	<u>14,980</u>	<u>-</u>
Total additions	<u>37,224,908</u>	<u>37,209,928</u>
Transfers	( 37,654,435)	( 35,517,259)
3% reduction	( 1,116,298)	( 1,116,298)
Lapsed funds	<u>( 1,322,231)</u>	<u>-</u>
Total deductions	<u>( 40,092,964)</u>	<u>( 36,633,557)</u>
Receivable, ending	<u>\$ 1,412,884</u>	<u>\$ 4,280,940</u>

PSS believes that lapsed appropriations due from CNMI government are not expected to be collected in one year. These are reclassified from receivable from CNMI to other receivables and the corresponding fund balance restated to deferred revenue.

Non-current Liabilities

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

	<u>2005</u>	<u>2004</u>
Beginning balance	\$ 4,269,479	\$ 4,248,546
Increase	<u>160,250</u>	<u>20,933</u>
Ending balance	4,429,729	4,269,479
Due within one year	<u>-</u>	<u>-</u>
Accrued leave liability	<u>\$ 4,429,729</u>	<u>\$ 4,269,479</u>

PSS uses local funds to liquidate accrued leave liability.

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(3) Detail Notes on all Funds, Continued

Non-major funds

Specific revenues earmarked to finance particular programs and activities of the Public School System are accounted for in Special Revenue Funds. A summary of PSS' Non-major Funds as of September 30, 2005 and 2004 follows:

Federal Grants Fund - This fund accounts for activities pertaining to Federal operations grants. The primary revenue source of this fund is grant awards from various Federal agencies.

Local Donations Fund - This fund accounts for activities pertaining to local donations received for specific purposes. The primary source of revenue for this fund are donations from private individuals or organizations.

CNMI Grants Fund - This fund was established to account for projects that were appropriated without fiscal year limitation by Public Law 8-2.

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

(4) Contingencies

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

For fiscal years ended September 30, 2005 and 2004, expenditures in the amount of \$121,628 has been questioned as a result of Single Audits in fiscal years 1997 through 1998.

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(5) Commitments

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

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

Future lease payments are as follows:

Year ended September, 2006	\$ 738,248
2007	738,248
2008	738,248
2009	738,248
2010	<u>184,568</u>
Total	<u>\$3,137,560</u>

(6) Risk Management

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

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

PUBLIC SCHOOL SYSTEM

Notes to the Financial Statements  
September 30, 2005 and 2004

(7) Current year restatements

During the year, the PSS made the following restatements:

- a. Prior period revenue related to lapsed receivables from the CNMI amounting to \$1,322,231 was adjusted to deferred liability. These restatements were reflected on the Statement of Revenues, Expenditures, and Changes in Fund Balance.
- b. PSS changed the life of vehicles and other fixed assets from 8 years to 5 years, which they believe is a more reasonable life considering the usage of these assets. This resulted to increase in accumulated depreciation by \$1,040,592.
- c. Increased reserved fund balance for accrued leave by \$160,280.

(8) Reclassification of Accounts

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported net assets in the government-wide financial statement.

(9) Economic Dependency

Statement of Financial Accounting Standard (SFAS) No 14 requires disclosure in the financial statements of a situation where one entity provides more than 10% of the audit entity's revenues. The CNMI Legislature provided approximately \$37 million to PSS, which represents approximately 50% of the PSS' total revenues for the year ended September 30, 2005.

(10) Subsequent Events

On June 7, 2006, the Board of Education approved a resolution to write off travel advances of \$311,644 which exceeded the statute of limitation. As of September 30, 2005, the allowance for doubtful accounts of related to these advances was \$272,277. Such advances were funded with local funds.

Additionally, the Board approved a resolution to write-off lapsed appropriations due from the CNMI government of \$1,322,231.

SUPPLEMENTARY INFORMATION

---

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

---

Year Ended September 30, 2005

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2005

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/04	Adjustments	Cash Receipts FY 05	Expenditures FY 05	Receivable FROM Grantor (Deferred Revenue) at 09/30/05
<b>U.S. Department of Commerce</b>							
<b>Direct Programs</b>							
<b>CFDA# 11.550</b>							
Public Telecomm. Fac. Program	0482PT4PTF	-	\$ 94,933	\$ (94,933)	\$ (44,723)	\$ 44,723	\$ -
Total U.S. Department of Commerce							
		\$ 9,827,803	\$ 94,933	\$ (94,933)	\$ (44,723)	\$ 44,723	\$ -
<b>U.S. Department of Education</b>							
<b>Direct Programs</b>							
<b>CFDA# 84.922A</b>							
State Assessment - Admin.	040SAS4ADM	-	101	(101)	(16,261)	16,261	-
State Assess. - Bil. Ed. Proficiency	040SAS4BEP	-	2,977	(2,977)	(10,738)	10,738	-
State Assess. - English Lang. Learner	040SAS4ELL	-	2,910	(2,910)	(21,747)	21,747	-
State Assess. - SEA/LEA	040SAS4LEA	-	250	(250)	(120,411)	120,411	-
State Assess. - SAT10	040SAS4SAT	-	2,032	(2,032)	(29,543)	29,543	-
State Assess. - Assess. Scoring Ctr.	040SAS4ASC	-	246	(246)	(117,885)	117,885	-
State Assess. - Reading First Assess.	040SAS4RFA	-	2,192	(2,192)	(3,783)	3,783	-
State Assess. - Training	040SAS4TRG	-	20,237	(20,237)	(117,565)	117,565	-
State Assess. - Standard Based Rpt. Card	040SAS4SBR	-	3,624	(3,624)	(1,312)	1,312	-
State Assess. - Standard Based Assess.	040SAS4SBA	-	1,480	(1,480)	(46,990)	46,990	-
State Assess. - Data Management System	040DMS4DMS	-	52	(52)	(329,771)	329,771	-
State Assess. - Data Mgmt System Prl	040DMS4PRL	-	-	-	(32,160)	32,160	-
State Assess. - DMS Training	040DMS4TRG	-	200	(200)	(20,393)	20,393	-
State Assess. - Personnel	041SAS4SAP	-	14,960	(14,960)	(465,900)	465,900	-
IAP/T5 - Admin.	043IAP4ADM	-	1,267	(1,267)	(155,194)	155,194	-
IAP/T5 - Advanced Placement Program	043IAP4APP	-	804	(804)	(27,779)	27,779	-
IAP/T5 - SEA/LEA	043IAP4LEA	-	762	(762)	(265,442)	265,442	-
IAP/T5 - National Forensic League	043IAP4NFL	-	1,402	(1,402)	(121)	121	-
IAP/T5 - Professional Develop. Program	043IAP4PPD	-	9,909	(9,909)	(44,268)	44,268	-
IAP/T5 - Social Studies & Science	043IAP4SSS	-	50	(50)	(268)	268	-
IAP/T5 - Training Novice Teachers	043IAP4TNT	-	5,830	(5,830)	(918)	918	-
IAP/T5 - Bilingual	043IAP4BIL	-	2,963	(2,963)	(5,573)	5,573	-
IAP/T5 - Accreditation Admin.	043IAP4ACA	-	476	(476)	(8,871)	8,871	-
IAP/T5 - Accreditation Report	043IAP4ACR	-	4,306	(4,306)	(65,504)	65,504	-
IAP/T5 - Public School Prof. Dev. Prog.	043PUB4PDP	-	64,361	(64,361)	(335,472)	335,472	-
IAP/T5 - CMS	043PUB4A01	-	(6,075)	6,075	(259,407)	259,407	-
IAP/T5 - DAN	043PUB4A02	-	(5,183)	5,183	(98,921)	98,921	-
Balance carried forward		\$ 9,827,803	\$ 132,133	\$ (132,133)	\$ (2,602,197)	\$ 2,602,197	\$ -

See accompanying notes to Schedule of Expenditures of Federal Awards.

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2005

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 05	Receivable From		Adjustments	Cash		Expenditures FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/05
			09/30/04	Revenue) at 09/30/04		FY 05	FY 05		
<b>U.S. Department of Education</b>									
<b>Direct Programs</b>									
<b>CFDA# 84.922A</b>									
Balance brought forward		\$ 9,827,803	\$ 132,133	\$ (132,133)	\$ (2,602,197)	\$ 2,602,197	\$ -	\$ -	
IAP/T5 - GES	043PUB4A03	-	-	-	(381,638)	381,638	-	-	
IAP/T5 - GTC	043PUB4A04	-	7,388	(7,388)	(52,404)	52,404	-	-	
IAP/T5 - HJH	043PUB4A05	-	-	-	(374,403)	374,403	-	-	
IAP/T5 - KAG	043PUB4A06	-	(6,367)	6,367	(213,960)	213,960	-	-	
IAP/T5 - KES	043PUB4A07	-	41	(41)	(107,649)	107,649	-	-	
IAP/T5 - KHS	043PUB4A08	-	(2,469)	2,469	(55,023)	55,023	-	-	
IAP/T5 - MHS	043PUB4A09	-	2,612	(2,612)	(329,413)	329,413	-	-	
IAP/T5 - OES	043PUB4A10	-	(1,751)	1,751	(127,984)	127,984	-	-	
IAP/T5 - RJH	043PUB4A11	-	1,868	(1,868)	(17,618)	17,618	-	-	
IAP/T5 - RJH	043PUB4A12	-	31	(31)	(49,803)	49,803	-	-	
IAP/T5 - SAS	043PUB4A13	-	(4,856)	4,856	(122,836)	122,836	-	-	
IAP/T5 - SES	043PUB4A14	-	(9,278)	9,278	(91,456)	91,456	-	-	
IAP/T5 - SHS	043PUB4A15	-	(1,662)	1,662	(150,671)	150,671	-	-	
IAP/T5 - SVS	043PUB4A16	-	345	(345)	(219,616)	219,616	-	-	
IAP/T5 - TAN	043PUB4A17	-	(9,278)	9,278	(72,674)	72,674	-	-	
IAP/T5 - TES	043PUB4A18	-	(1,654)	1,654	(107,605)	107,605	-	-	
IAP/T5 - THS	043PUB4A19	-	(1,971)	1,971	(47,214)	47,214	-	-	
IAP/T5 - WSR	043PUB4A20	-	771	(771)	(171,814)	171,814	-	(1,016)	
IAP/T5 - BMS	043PVT4B01	-	-	-	(24,889)	24,889	-	-	
IAP/T5 - CLS	043PVT4B03	-	-	-	(18,458)	18,458	-	-	
IAP/T5 - CDC	043PVT4B04	-	-	-	(2,705)	2,705	-	-	
IAP/T5 - EIS	043PVT4B05	-	1,137	(1,137)	(65,426)	65,426	-	-	
IAP/T5 - GCS	0430VT4B06	-	1,526	(2,542)	(137,415)	137,415	-	-	
IAP/T5 - GCR	0430VT4B07	-	-	-	(54,832)	54,832	-	-	
IAP/T5 - GCT	043PVT4B08	-	1,901	(1,901)	(24,745)	24,745	-	-	
IAP/T5 - GHI	043PVT4B09	-	701	(701)	(22,340)	22,340	-	-	
IAP/T5 - GMS	043PVT4B10	-	-	-	(8,071)	8,071	-	-	
IAP/T5 - JGA	043PVT4B11	-	2,144	(2,144)	(16,813)	16,813	-	-	
IAP/T5 - MCS	043PVT4B13	-	10	7,585	(168,649)	168,649	-	-	
IAP/T5 - NMA	043PVT4B14	-	-	61	(25,084)	25,084	-	-	
IAP/T5 - SCS	043PVT4B15	-	63	(63)	(89,767)	89,767	-	-	
IAP/T5 - SFB	043PVT4B16	-	100	1,957	(22,727)	22,727	-	-	
IAP/T5 - SJT	043PVT4B18	-	-	5,138	(10,292)	10,292	-	-	
IAP/T5 - SIS	043PVT4B19	-	-	248	(60,038)	60,038	-	-	
IAP/T5 - SRS	043PVT4B20	-	-	211	(63,177)	63,177	-	-	
Balance carried forward		\$ 9,827,803	\$ 113,485	\$ (100,091)	\$ (6,111,406)	\$ 6,111,406	\$ 13,394	\$ 13,394	

See accompanying notes to Schedule of Expenditures of Federal Awards.

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2005

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/04	Adjustments	Cash Receipts FY 05	Expenditures FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/05
<b>U.S. Department of Education</b>							
<b>Direct Programs</b>							
<b>CFDA# 84.922A</b>							
Balance brought forward		\$ 9,827,803	\$ 113,485	\$ (100,091)	\$ (6,111,406)	\$ 6,111,406	\$ 13,394
IAP/T5 - WPS	043PVT4B21	-	-	122	(23,763)	23,763	122
IAP/T5 - Accreditation Personnel	044IAP4ACC	-	2,654	(2,654)	-	-	(24,106)
IAP/T5 - Class Size Reduction	044IAP4CSR	-	110,890	(134,996)	(860,063)	860,063	(3,529)
State Assessment - Admin.	050SAS5ADM	-	-	(3,529)	(16,204)	16,204	8,496
State Assess - Accreditation	050SAS5ACR	-	-	8,496	(8,496)	8,496	6,647
State Assess - Bil Ed Proficiency	050SAS5BEP	-	-	6,647	(10,663)	10,663	28
State Assess - English Language Learner	050SAS5ELL	-	-	28	(24,694)	24,694	250
State Assess - SEA/LEA	050SAS5LEA	-	-	250	(23,892)	23,892	73
State Assess - SAT10	050SAS5SAT	-	-	73	(1,090)	1,090	3,692
State Assess - Assess. Scoring Ctr	050SAS5ASC	-	-	3,692	(97,969)	97,969	454
State Assess - Reading First Assess.	050SAS5RFA	-	-	454	(2,944)	2,944	88,718
State Assess - Training	050SAS5TRG	-	-	2,730	(13,079)	13,079	42,349
State Assess - Standard Based Report Card	050SAS5SBR	-	-	-	(42,349)	42,349	1,027
State Assess - Standard Based Assess.	050SAS5SBA	-	-	17,896	(1,027)	1,027	33,418
State Assess - Data Management System	050SAS5DMS	-	-	69	(33,418)	33,418	10,321
IAP/T5 - Admin.	051SAS5SAP	-	-	17,591	(90,231)	90,231	748,095
IAP/T5 - PUB Sch. PDP, Improve and Reform	053IAP5ADM	-	-	37,589	(748,095)	748,095	141,811
IAP/T5 - PVT Sch. PDP, Improve and Reform	053IAP5PIR	-	-	8,631	(141,811)	141,811	692,018
IAP/T5 - Teacher Training	053IAP5PVT	-	-	21,944	(692,018)	692,018	233,920
IAP/T5 - Public School Prof. Dev. Program	053IAP5PSS	-	-	43,424	(233,920)	233,920	99,407
IAP/T5 - CMS	053IAP5PUB	-	-	3,262	(99,407)	99,407	119,440
IAP/T5 - DAN	053PUBCMS	-	-	2,405	(119,440)	119,440	65,126
IAP/T5 - GES	053PUBDAN	-	-	177	(65,126)	65,126	60,862
IAP/T5 - GTC	053PUBGES	-	-	15,063	(60,862)	60,862	142,229
IAP/T5 - HJH	053PUBGTC	-	-	20	(142,229)	142,229	143,220
IAP/T5 - KAG	053PUBHJH	-	-	163	(143,220)	143,220	109,055
IAP/T5 - KES	053PUBKAG	-	-	2	(109,055)	109,055	356,892
IAP/T5 - KHS	053PUBKES	-	-	2,617	(356,892)	356,892	257,122
IAP/T5 - MHS	053PUBKHS	-	-	910	(257,122)	257,122	98,318
IAP/T5 - OES	053PUBMHS	-	-	24	(98,318)	98,318	31,715
IAP/T5 - RJH	053PUBOES	-	-	4,425	(31,715)	31,715	51,053
IAP/T5 - RJS	053PUBRJH	-	-	7,925	(51,053)	51,053	62,980
IAP/T5 - SAS	053PUBRJS	-	-	-	(62,980)	62,980	46,647
IAP/T5 - SES	053PUBSAS	-	-	74	(46,647)	46,647	-
Balance carried forward		\$ 9,827,803	\$ 227,029	\$ (24,246)	\$ (10,909,916)	\$ 10,909,916	\$ 202,783

See accompanying notes to Schedule of Expenditures of Federal Awards.



PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2005

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/04	Adjustments	Cash Receipts FY 05	Expenditures FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/05
<b>U.S. Department of Education</b>							
<b>Direct Programs</b>							
<b>CFDA# 84.922A</b>							
Balance brought forward		\$ 9,827,803	\$ 227,029	\$ (24,246)	\$ (10,909,916)	\$ 10,909,916	\$ 202,783
IAP/T5 -SHS	053PUBSHS	-	-	36	(38,642)	38,642	36
IAP/T5 -SVS	053PUBSVS	-	-	1,508	(146,854)	146,854	1,508
IAP/T5 -TAN	053PUBTAN	-	-	5,827	(14,089)	14,089	5,827
IAP/T5 -TES	053PUBTES	-	-	39	(46,690)	46,690	39
IAP/T5 -THS	053PUBTHS	-	-	1,703	(40,290)	40,290	1,703
IAP/T5 -WSR	053PUBWSR	-	-	3,811	(106,049)	106,049	3,811
IAP/T5 -ADI	053PUBADI	-	-	1,643	(5,072)	5,072	1,643
IAP/T5 -BSM	053PVTBSM	-	-	211	(4,571)	4,571	211
IAP/T5 -EIS	053PVTSEIS	-	-	1,747	(4,877)	4,877	1,747
IAP/T5 -GCR	053PVT5GCR	-	-	580	(29,748)	29,748	580
IAP/T5 -GCS	053PVT5GCS	-	-	244	(7,890)	7,890	244
IAP/T5 -GCT	053PVT5GCT	-	-	1	(36,770)	36,770	1
IAP/T5 -GHI	053PVT5GHI	-	-	1,072	(27,440)	27,440	1,072
IAP/T5 -GMS	053PVT5GMS	-	-	366	(5,939)	5,939	366
IAP/T5 -NMA	053PVT5NMA	-	-	1,796	(4,634)	4,634	1,796
IAP/T5 -SCS	053PVT5SCS	-	-	9,118	(72,756)	72,756	9,118
IAP/T5 -SJT	053PVT5SJT	-	-	525	(525)	525	525
IAP/T5 -SRS	053PVT5SRS	-	-	128	(14,042)	14,042	128
IAP/T5 -WPS	053PVT5WPS	-	-	2,187	(25,589)	25,589	2,187
IAP/T5 - Class Size Reduction	054IAP5CSR	-	-	168,681	(2,039,036)	2,039,036	168,681
Subtotal CFDA# 84.922A		\$ 9,827,803	\$ 227,029	\$ 176,977	\$ (13,581,419)	\$ 13,581,419	\$ 404,006

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2005

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 05	Adjustments	Cash Receipts FY 05	Expenditures FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/05
<b>U.S. Department of Education</b>						
<b>Direct Programs</b>						
<b>CFDA# 84.215U</b>						
Christa McAuliffe Grant	0045CS	\$ -	\$ (578)	\$ -	\$ -	\$ (578)
Christa McAuliffe Grant	0045HS	-	(205)	-	-	(205)
Christa McAuliffe Grant	0045MA	-	(961)	-	-	(961)
Christa McAuliffe Grant	0045MR	-	(52)	-	-	(52)
Christa McAuliffe Grant	0045RA	-	(1,818)	-	-	(1,818)
Christa McAuliffe Grant	0045RF	-	(118)	-	-	(118)
Christa McAuliffe Grant	0045RG	-	(105)	-	-	(105)
Christa McAuliffe Grant	0245PKW2	-	(11)	-	-	(11)
Subtotal CFDA# 84.215U		\$ -	\$ (3,848)	\$ -	\$ -	\$ (3,848)
<b>CFDA# 84.256A</b>						
Reading Master Kit (TFAS)	0498RK4RMK	\$ -	\$ 1,910	\$ (349,104)	\$ 349,104	\$ 92,755
Reading Master Kit (TFAS)	0698RK6RMK	-	-	(10,841)	10,841	1,643
Subtotal CFDA# 84.256A		\$ -	\$ 1,910	\$ (359,945)	\$ 359,945	\$ 94,398
<b>CFDA# 84.364A</b>						
Library Reading First	0597LR5LRF	\$ 12,086	\$ -	\$ (12,086)	\$ 12,086	\$ -
Subtotal CFDA# 84.364A		\$ 12,086	\$ -	\$ (12,086)	\$ 12,086	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2005

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/04	Adjustments	Cash Receipts FY 05	Expenditures FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/05
<b>CFDA# 84.027</b>							
SPED Handicapped Children SEA	0483SE4SPE	\$ 4,510,173	\$ 27,105	\$ (27,105)	\$ (355,776)	\$ 355,776	\$ -
SPED - Admin	0484AD4SPE	-	4,521	(4,521)	(75,154)	75,154	-
SPED Handicapped Children LEA	0485LE4SPE	-	141,422	(141,422)	(1,336,093)	1,336,093	-
SPED - Admin	0583SE5SPE	-	-	41,521	(883,174)	883,174	41,521
SPED Handicapped Children LEA	0584AD5SPE	-	-	7,198	(126,207)	126,207	7,198
SPED Handicapped Children LEA	0585LE5SPE	-	-	180,089	(2,988,506)	2,988,506	180,089
Subtotal CFDA# 84.027		\$ 4,510,173	\$ 173,048	\$ 55,760	\$ (5,764,910)	\$ 5,764,910	\$ 228,808
<b>CFDA# 84.323A</b>							
SPED - State Improvement Grant	0586SI6SPE	\$ 131,200	-	-	\$ (28,223)	\$ 28,223	\$ -
Subtotal CFDA# 84.323A		\$ 131,200	\$ -	\$ -	\$ (28,223)	\$ 28,223	\$ -
<b>CFDA# 84.181</b>							
SPED Infant & Toddlers	0488IF4SPE	\$ 462,815	\$ 15,231	\$ (15,231)	\$ (59,350)	\$ 59,350	\$ -
SPED Infant & Toddlers	0588IF4SPE	-	-	18,488	(416,432)	416,432	18,488
Subtotal CFDA# 84.181		\$ 462,815	\$ 15,231	\$ 3,257	\$ (475,782)	\$ 475,782	\$ 18,488
<b>CFDA# 84.000</b>							
Comparability NCES	2789	\$ 10,000	\$ (3,397)	\$ 3,397	\$ (3,397)	\$ 3,397	\$ -
Comparability NCES	2989	-	(28,641)	18,968	(18,968)	18,968	(9,673)
Common Core - Data	0165	-	(21,094)	12,155	(12,155)	12,155	(8,939)
Data Improvement - NCES	0089	-	(3,046)	2,187	(2,187)	2,187	(859)
Common Core - Data	0265CCD2	-	(28,000)	-	-	-	(28,000)
Common Core - Data	0365CC3CCD	-	(21,000)	-	-	-	(21,000)
Comparability NCES	0289NCE2	-	(16,821)	-	-	-	(16,821)
Subtotal CFDA# 84.000		\$ 10,000	\$ (121,999)	\$ 36,707	\$ (36,707)	\$ 36,707	\$ (85,292)

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2005

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 05	Adjustments	Cash Receipts FY 05	Expenditures FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/05
<b>U.S. Department of Education</b>						
<b>Direct Programs</b>						
<b>CFDA# 84.185</b>						
R.C. Byrd School Program	0574RB5RCB	\$ 120,000	\$ -	\$ (4,745)	\$ 4,745	\$ -
R.C. Byrd School Program	0574RC5RCB	-	-	(44,755)	44,755	-
Subtotal CFDA# 84.185		\$ 120,000	\$ -	\$ (49,500)	\$ 49,500	\$ -
Total U.S. Department of Education		\$ 15,074,077	\$ 365,189	\$ (20,308,572)	\$ 20,308,572	\$ 656,560

**U.S. Department of Health and Human Services**

**Direct Programs**

**CFDA# 93.600**

Headstart Admin.	0471AD4HDS	\$ 1,498,197	\$ -	\$ (1,741)	\$ 1,741	\$ -
Headstart Basic	0472BA4HDS	-	(96,409)	(9,125)	9,125	-
Headstart Correcting Deficiency	0472CD4HDS	-	1,284	(57,981)	57,981	-
Headstart Construction in Progress	0472CO4HDS	-	-	(61,186)	61,186	-
Headstart Technology	0472TE4HDS	-	-	(37,400)	37,400	-
Headstart Training	0473TR4HDS	-	-	(792)	792	-
Headstart Training Supplemental	0473TT4HDS	-	-	(6,738)	6,738	-
Headstart Construction	0475FI4HDS	-	-	(134,533)	134,533	-
Headstart Admin.	0571AD5HDS	-	-	(50,082)	50,082	-
Headstart Basic	0572EA5HDS	-	22,129	(1,146,096)	1,146,096	-
Headstart Emergency Fund (Typhoon)	0572EF5HDS	-	911	(39,770)	39,770	-
Headstart Fatherhood	0572FA5HDS	-	-	(8,000)	8,000	-
Headstart Employee Mileage	0572MI5HDS	-	-	(3,603)	3,603	-
Headstart Parent Program	0572PA5HDS	-	-	(453)	453	-
Headstart Vehicle	0572VE5HDS	-	-	(124,340)	124,340	-
Headstart Training Supplemental	0573TR5HDS	-	-	(47,719)	47,719	-
Headstart Training	0573TT5HDS	-	-	(22,210)	22,210	-
Headstart Admin	0671AD6HDS	-	318	(2,064)	2,064	-
Headstart Basic	0672BA6HDS	-	71,248	(223,934)	223,934	-
Headstart Training	0673TR6HDS	-	894	(8,458)	8,458	-
Subtotal CFDA# 93.600		\$ 1,498,197	\$ (95,125)	\$ (1,986,225)	\$ 1,986,225	\$ 95,509

See accompanying notes to Schedule of Expenditures of Federal Awards.

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2005

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/04	Adjustments	Cash Receipts FY 05	Expenditures FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/05
<b>CFDA# 93.575</b>							
Child Care Administration	0490AD4CCP	\$ 1,594,221	\$ 1,785	\$ (1,785)	\$ (46,617)	\$ 46,617	\$ -
Child Care Certificates	0491CC4CCP	-	630	(630)	(180,443)	180,443	-
Child Care Quality & Activity	0492QA4CCP	-	6,418	(6,418)	(62,492)	62,492	-
Child Care School Age/R&R	0493RR4CCP	-	860	(860)	(14,662)	14,662	-
Child Care Infant & Toddler	0495IF4CCP	-	-	-	(22,603)	22,603	-
Child Care Quality Expansion	0496QE4CCP	-	(1)	1	(130,388)	130,388	-
Child Care Quality Activity	0392QA3CCP	-	2,525	(2,525)	-	-	-
Child Care Quality Expansion	0396QE3CCP	-	1	(1)	(5,169)	5,169	-
Child Care Administration	0590AD5CCP	-	-	3,431	(41,134)	41,134	3,431
Child Care Certificates	0591CC5CCP	-	-	1,269	(958,696)	958,696	1,269
Child Care Quality Activity	0592QA5CCP	-	-	3,106	(43,973)	43,973	3,106
Child Care School Age/R&R	0593RR5CCP	-	-	1	(6,537)	6,537	1
Child Care Infant & Toddler	0595IF5CCP	-	-	-	(20,967)	20,967	-
Child Care Quality Expansion	0596QE5CCP	-	-	-	(125,703)	125,703	-
Child Care Technical Assistance	0589TA5CCB	-	-	(10,000)	-	-	(10,000)
Subtotal CFDA# 93.575		\$ 1,594,221	\$ 12,218	\$ (14,411)	\$ (1,659,384)	\$ 1,659,384	\$ (2,193)
<b>CFDA# 93.938</b>							
Aids-HIV	0481HI4HIV	\$ 97,000	\$ 1,824	\$ (1,824)	\$ (81,899)	\$ 81,899	\$ -
Aids-HIV	0581HI4HIV	-	-	3,027	(89,254)	89,254	3,027
Subtotal CFDA# 93.938		\$ 97,000	\$ 1,824	\$ 1,203	\$ (171,153)	\$ 171,153	\$ 3,027
Total U. S. Department of Health and Human Services		\$ 3,189,418	\$ (81,083)	\$ 177,426	\$ (3,816,762)	\$ 3,816,762	\$ 96,343

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2005

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 05	Adjustments	Cash Receipts FY 05	Expenditures FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/05
<b>U.S. Department of Agriculture</b>						
<b>Direct Programs</b>						
<b>CFDA #10.555</b>						
USDA TERAP	0175	\$ 5,707,792	\$ (2,045)	\$ -	\$ -	\$ (2,045)
FNS Breakfast Lunch & Snacks Program	0477BL4FNS	-	(61,576)	(2,872,826)	2,872,826	-
FNS State Admin. Expense	0478AD4FNS	-	3,732	-	-	-
FNS Nutrition Education	0479NE4FNS	-	-	(52,611)	52,611	-
FNS San Vicente Cafetorium	0480CA4FNS	-	-	(36,591)	36,591	-
FNS Equip. & Facility Improvement	0480EF4FNS	-	(1)	(192,940)	192,940	-
FNS Breakfast Lunch & Snacks Program	0577BL5FNS	-	49,008	(3,257,932)	3,257,932	49,008
FNS State Admin. Expense	0578AD5FNS	-	4,425	(79,660)	79,660	4,425
FNS Nutrition Education	0579NE5FNS	-	1,637	(104,485)	104,485	1,637
FNS San Vicente Cafetorium	0580CA5FNS	-	-	(36,189)	36,189	-
FNS Equip. & Facility Improvement	0580EF5FNS	-	8,104	(55,398)	55,398	8,104
Total U.S. Department of Agriculture		\$ 5,707,792	\$ 55,800	\$ (6,688,632)	\$ 6,688,632	\$ 61,129
<b>U.S. Department of Transportation</b>						
<b>Direct Programs</b>						
<b>CFDA #20.509</b>						
Federal Transit Bus - Admin	0370RD3BUS	\$ 1,561,231	\$ 1,419	\$ (1,419)	\$ -	\$ -
Federal Transit Bus	0370BU3BUS	-	9,785	(9,785)	29,584	-
Federal Transit Bus	0570BU5BUS	-	-	(763,737)	763,737	44,565
Federal Transit Bus	0570BU5FTA	-	-	(268,709)	268,709	268,709
Total U.S. Department of Transportation		\$ 1,561,231	\$ 11,204	\$ (1,062,030)	\$ 1,062,030	\$ 313,274

PUBLIC SCHOOL SYSTEM

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2005

Federal Grantor/Program/ Title/Federal CFDA Number	Org. No.	Program or Award Amount FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/04	Adjustments	Cash Receipts FY 05	Expenditures FY 05	Receivable From Grantor (Deferred Revenue) at 09/30/05
<u>Other</u>							
<u>Direct Programs</u>							
<u>CFDA# 94.006A</u>							
Americorps - Admin.	0499AD4AMC	\$ 269,269	\$ -	\$ 275	\$ (4,132)	\$ 4,132	\$ 275
Americorps	0499AM4AMC	-	1,179	9,714	(177,590)	177,590	10,893
Subtotal CFDA# 94.006A		\$ 269,269	\$ 1,179	\$ 9,989	\$ (181,722)	\$ 181,722	\$ 11,168
Total Other Programs		\$ 269,269	\$ 1,179	\$ 9,989	\$ (181,722)	\$ 181,722	\$ 11,168
Total Federal Grants Fund		\$ 25,801,787	\$ 373,404	\$ 765,070	\$ (32,102,441)	\$ 32,102,441	\$ 1,138,474

## PUBLIC SCHOOL SYSTEM

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2005

### (1) Scope of Review

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

### (2) Summary of Significant Accounting Policies

#### a. Basis of Accounting

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

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

#### b. Indirect Cost Allocation

PSS negotiated an indirect cost plan with the U.S. Department of the Education for fiscal year 2005. It is applicable to all Federal grant programs under the U.S. Department of Education and was 15.7% of payroll expenditures for the year ended September 30, 2005.



PUBLIC SCHOOL SYSTEM

---

SINGLE AUDIT REPORTS

---

Year Ended September 30, 2005

PUBLIC SCHOOL SYSTEM

---

INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND INTERNAL CONTROL  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
AND ON THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS

---

Year Ended September 30, 2005

J. Scott Magliari  
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

Saipan Office:  
PMB 297 Box 10000  
Saipan, MP 96950  
Tel. No. (670) 233-1837  
Fax No. (670) 233-8214

Guam Office:  
P.O. Box 12734  
Tamuning, Guam 96931  
Tel. No. (671) 472-2680  
Fax No. (671) 472-2686

Palau Office:  
P.O. Box 1266, Koror, PW 96940  
Tel. No. (680) 488-8615  
Fax No. (680) 488-8616

Independent Auditor's Report on Internal Control  
Over Financial Reporting and On Compliance  
and Other Matters Based on an Audit  
Performed in Accordance With  
Government Auditing Standards

The Board of Education  
Public School System

I have audited the financial statements of the Public School System (PSS), as of and for the year ended September 30, 2005 and have issued my report thereon dated May 31, 2006. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered PSS' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that in our judgment, could adversely affect PSS' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Finding Nos. 05-2 to 05-11.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider Finding Nos. 05-6, 05-7, 05-8 and 05-10 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PSS' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding Nos. 05-1 to 05-10.

This report is intended solely for the information and use of the management of PSS, the Board of Education, the Office of the Public Auditor of the CNMI, federal awarding agencies, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in cursive script: J. Scott Magliari & Company

Saipan, Commonwealth of the Northern Mariana Islands  
May 31, 2006

J. Scott Magliari  
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

Saipan Office:  
PMB 297 Box 10000  
Saipan, MP 96950  
Tel. No. (670) 233-1837  
Fax No. (670) 233-8214

Guam Office:  
P.O. Box 12734  
Tamuning, Guam 96931  
Tel. No. (671) 472-2680  
Fax No. (671) 472-2686

Palau Office:  
P.O. Box 1266, Koror, PW 96940  
Tel. No. (680) 488-8615  
Fax No. (680) 488-8616

Independent Auditor's Report on  
Compliance and Internal Control Applicable to  
Each Major Program and on Internal Control Over Compliance  
and on the Schedule of Expenditures of Federal Awards

The Board of Education  
Public School System

Compliance

I have audited the compliance of the Public School System (PSS) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The PSS' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of PSS's management. My responsibility is to express an opinion on PSS compliance based on my audit.

I conducted my 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; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I 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 major federal program occurred. An audit includes examining, on a test basis, evidence about PSS' compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on PSS' compliance with those requirements.

As described in Schedule of Findings, item numbers 05-11 through 05-14 in the accompanying Schedule of Findings and Questioned Costs, PSS did not comply with requirements regarding allowable costs or principles, procurement, suspension and debarment, program income, reporting, special tests and provisions and equipment and real property management that are applicable to its Consolidated Grants to Insular Areas, Nutrition Assistance Grant, Special Education, Head Start, Child Care and Development Block Grant and Federal Transit Bus major programs. Compliance with such requirements is necessary, in my opinion, for PSS to comply with the requirements applicable to these programs.

In my opinion, except for the noncompliance described in the preceding paragraph, PSS complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

### Internal Control Over Compliance

The management of PSS is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered PSS' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

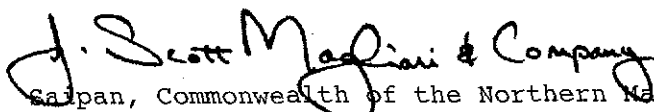
I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect PSS' ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs in Finding Nos. 05-12 through 05-15.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider Finding Nos. 05-12 and 05-15 to be material weaknesses.

### Schedule of Expenditures of Federal Awards

I have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregating fund information of the Public School System (PSS), as of and for the year ended September 30, 2005, and have issued my report thereon dated May 31, 2006. My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise PSS' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 36 through 45) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, except as described in the aforementioned report, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of PSS, the Board of Education, the Office of the Public Auditor of the CNMI, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

  
Saipan, Commonwealth of the Northern Mariana Islands  
May 31, 2006

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Reportable condition(s) identified not considered to be material weaknesses?  yes  no

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Reportable condition(s) identified not considered to be material weaknesses?  yes  no

Type of auditor's report issued on compliance for major federal programs:

Qualified on all major federal programs

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  yes  no

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION I - SUMMARY OF AUDITOR'S RESULTS, Continued

Federal Awards

Identification of major programs:

<u>CFDA Number</u>	<u>Description</u>	<u>Federal Expenditures</u>
84.922A	Consolidated Grant to Insular Areas	\$13,581,419
10.555	Nutrition Assistance Grant	6,688,632
84.027	Special Education Program	5,764,910
93.600	Head Start Program	1,986,225
93.575	Child Care and Development Block Grant	1,659,384
20.509	Federal Transit Bus	<u>1,062,030</u>
	Total Federal Expenditures-Major Programs	<u>\$30,742,600</u>
	Percentage of total awards tested	<u>95%</u>

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

\$ 963,074

3% of the total awards expended

Auditee qualified as low-risk auditee \_\_\_\_\_yes    Xno

(Note: Although PSS received a low risk designation from the Department of Education for resolving prior years' findings, I still consider PSS as high-risk for fiscal year 2005 due to recurring audit findings.)



PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

Deposit Policy for Credit and Custodial Risk

Finding No. 05-1

Criteria

PSS adopted budgets on local funds and they must ensure that unused funds already remitted to PSS are safeguarded from risk. Among this risk is credit risk for uninsured portion of deposits in banks.

Condition

As of September 30, 2005 and 2004, the total amounts deposited with the Federal Deposit Insurance Corporation (FDIC) insured banks were \$4,511,540 and \$2,914,758, respectively. From these deposits, \$ 727,467 in 2005 and \$522,562 in 2004 were subject to coverage by FDIC with the remaining balance exceeding insurable limits. PSS does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized.

Context

Audit procedures performed for Cash in accordance with Government Auditing Standards.

Effect

Lack of collateral for deposits beyond FDIC insured limits exposes bank deposits to credit risk. The risk that PSS may not collect all of its deposits.

Cause

PSS has not experienced any losses on its deposits, thus have not established policies regarding requiring collateral for uninsured deposits.

Recommendation

PSS should develop deposit policies which includes requiring collateral from banks for deposits beyond FDIC insured limits.

Auditee Response and Corrective Action Plan

PSS concurs. PSS will require collateralization from financial institutions in which there are deposits exceeding federally insured limit effective by end of fiscal year 2006.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

Procurement Regulations

Finding No. 05-2

Criteria

Actual purchases of government activities for goods and services must be through a "before-the-fact" approved small emergency purchase order for purchases not exceeding \$2,500, purchase requisition for purchases over \$2,500 to \$10,000, or contract for purchases over \$10,000.

Condition

PSS did not comply with the PSS procurement regulation (PSSPR), as follows:

- a. Two purchase requisitions issued for similar printing service to a single service provider amounting to \$4,600 and \$9,188 is in violation PSSPR 2-105 that address splitting contracts to avoid bidding.
- b. Accreditation service provided to PSS for \$22,607 without approved contract. Although the provider is a sole-source provider, a contract should be executed before actual service is provided.

Context

Examined sample contracts from the listing of contracts and reviewed the account ledgers of each vendor and computed the total services procured in FY 2005.

Effect

The effect of the above condition is non-compliance of the PSS procurement regulation, a violation of the applicable state laws and regulations and federal requirements.

Cause

- a. Due to the understanding that the fees are within the small purchases limit, PSS failed to recognize the need to execute a contract on this type of purchase.
- b. The contract amount cannot be determined since amounts paid will be based on actual reimbursement, thus no contract was executed before the service was provided.

Recommendation

In order to comply with PSS procurement laws and regulations, I recommend that a contract be executed on these kinds of purchases.

Auditee Response and Corrective Action Plan

PSS concurs. For both instances, PSS has issued memorandum to concerned employees regarding violation of PSSPR. These memorandum states that consequence for repeat unauthorized procurements includes being held personally liable for the value of the purchase, suspension from work with or without pay, or dismissal from employment.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

Travel Advances

Finding No. 05-3

Criteria

Pursuant to PSS Regulation 3430, section C (8), within CNMI travel requests shall be submitted to the Commissioner no later than 5 working days prior to the travel date. Out of CNMI travel requests shall be submitted to the Commissioner or the Chairperson of the Board of Education, as appropriate, no later than 10 working days prior to commencement of travel, except for extenuating circumstances.

Condition

The following were noted during the audit of travel advances:

- a. Three (3) or 15% of the twenty (20) travel authorization tested were not dated.
- b. Five (5) or 20% of the twenty (20) travel authorization tested were not submitted within the prescribed period.

Context

Based on the risk assessment made and the planning materiality computed, test of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. Randomly selected 20 individuals who traveled during the year and examined the supporting documents in accordance with the policies of PSS.

Effect

Failure to make a strict implementation of the travel policies results to unauthorized travels, disallowed costs, significant bad debts and non-compliance with the applicable state laws and federal regulations.

Cause

PSS did not adhere to its established policies and procedures on travel.

Recommendation

Travel authorization and other accountable documents must be properly filled out to facilitate processing.

Although PSS' policy provide that extenuating or justifying circumstances may waive the 5-10 working days lead-time for submission of travel advances, our audit showed that PSS does not document the justification for waiving the lead time. To ensure that this prerogative of the Commissioner to waive the lead-time is not abused or misused, extenuating circumstances should be documented and attached to the approved travel authorization.

Prior Year Status

The above condition was cited as a finding in the Single Audit of fiscal year 2004.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II -- FINANCIAL STATEMENT FINDINGS

Travel Advances, Continued

Finding No. 05-3, Continued

Auditee Response and Corrective Action Plan

PSS concurs. PSS will strictly enforce its established policies and procedures.

PSS prepared a proposed administrative change in the travel policy to ensure compliance with the applicable state laws and federal regulations. Upon approval this policy by beginning of fiscal year 2007, this shall be strictly enforced.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II -- FINANCIAL STATEMENT FINDINGS

Travel Advances, Continued

Finding No. 05-4

Criteria

Pursuant to PSS Regulation 3420, section C (10), travel advances shall not be issued if there is an outstanding voucher or if an outstanding expense by the traveler has not been verified. Exceptions to this rule may be made at the discretion of the Commissioner or the Chairperson of the Board, as appropriate.

Condition

Twelve or 60% of the twenty (20) travel authorizations, travel advance were issued to travelers with unliquidated travel advance.

Context

Based on the risk assessment made and the planning materiality computed, test of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. Randomly selected 20 individuals who traveled during the year and examined the supporting documents in accordance with the policies of PSS.

Effect

Failure to make a strict implementation of the travel policies results to significant bad debts and high outstanding advances balance.

Cause

PSS did not adhere to its established policies and procedures on travel.

Recommendation

PSS should strictly implement Regulation 3430, Section G (9) that is to deduct from salaries, honorarium or next travel advance, as applicable, any unliquidated travel advances.

There should also be monitoring to ensure that Commissioner is made aware of any outstanding travel advance before the new travel advance is approved, because Commissioner's signature on the travel advance means that the Commissioner is excepting the traveler from the provision of Regulation 3430, section G (9) by exercising the Commissioner's discretion as allowed by section C (10).

Prior Year Status

The above condition was cited as a finding in the Single Audit of fiscal year 2004.

Auditee Response and Corrective Action Plan

PSS concurs. PSS will strictly enforce its established policies and procedures. PSS prepared a proposed administrative change in the travel policy to ensure compliance with the applicable state laws and federal regulations. Upon approval this policy beginning of fiscal year 2007, this shall be strictly enforced.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

Travel Advances, Continued

Finding No. 05-5

Criteria

Pursuant to PSS Regulation 3420, section G (1), travelers must file a travel voucher with supporting documentation within fifteen (15) working days upon completion of travel. Travelers who fail to meet this deadline will forfeit the remaining ten percent of the cost of travel. Travelers who fail to submit travel vouchers and supporting documentation will be subject to payroll deduction of the entire amount of the advance.

Condition

The following were noted during the audit of travel advances:

- a. For ten (10) or 50% of twenty (20), travel authorizations tested, the travel advance liquidations are either not yet liquidated or were not on file.
- b. 2 out of the 10 who submitted do not have complete supporting documents and 1 submitted after 15 working days upon completion of the travel.

Context

Based on the risk assessment made and the planning materiality computed, test of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. Randomly selected 20 individuals who traveled during the year and examined the supporting documents in accordance with the policies of PSS.

Effect

Failure to make a strict implementation of the travel policies results to significant bad debts and high outstanding advances balance.

Cause

PSS did not adhere to its established policies and procedures on travel.

Recommendation

PSS should enforce timely liquidation of travel advances. Upon travel, PSS uses local funding to provide travel advances and they can only charge corresponding federal grants upon liquidation. The outstanding travel advances were not quantified to determine how much should be billed to federal grants upon liquidation; however, PSS cannot afford to tie-up local funds in receivables.

Prior Year Status

The above condition was cited as a finding in the Single Audit of fiscal year 2004.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

Travel Advances, Continued

Finding No. 05-5, Continued

Auditee Response and Corrective Action Plan

PSS concurs. PSS will strictly enforce its established policies and procedures.

PSS prepared a proposed administrative change in the travel policy to ensure compliance with the applicable state laws and federal regulations. Upon approval this policy beginning of fiscal year 2007, this shall be strictly enforced.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

Completeness of Recorded Cafeteria Collection

Finding No. 05-6

Criteria

Internal control over cash should be in place and implemented to ensure complete and timely recording of cash receipts and related revenue.

Condition

There no internal control policies and procedures in place to ensure that cafeteria collections were remitted to PSS central treasurer on time.

Saipan Southern High

<u>Cash Count Date</u>	<u>Total Collections</u>	<u>Date Submitted</u>	<u>No. of weeks late</u>
10/04 - 10/08/04	\$ 848.00	10/19/04	1 week
10/12 - 10/15/04	710.75	10/25/04	1 week
08/24 - 08/26/05	312.50	09/16/05	2 weeks
08/29 - 08/30/05	<u>43.00</u>	09/16/05	2 weeks
Sub-total	<u>1,914.25</u>		

Kagman High School

<u>Cash Count Date</u>	<u>Total Collections</u>	<u>Date Submitted</u>	<u>No. of weeks late</u>
09/12 - 09/16/05	<u>1,025.50</u>	09/27/05	1 week
Sub-total	<u>1,025.50</u>		

Marianas High School

<u>Cash Count Date</u>	<u>Total Collections</u>	<u>Date Submitted</u>	<u>No. of weeks late</u>
05/10 - 05/14/04	\$ 1,493.25	10/18/04	22 weeks
05/18 - 05/21/04	1,257.30	10/18/04	21 weeks
05/24 - 05/28/04	1,402.25	10/18/04	20 weeks
06/01 - 06/02/04	414.00	10/18/04	19 weeks
09/22 - 09/24/04	1,141.25	10/19/04	5 weeks
04/07 - 04/08/05	816.50	09/06/05	21 weeks
08/23 - 08/26/05	<u>1,499.22</u>	09/06/05	1 week
Sub-total	<u>8,023.77</u>		
Total	<u>\$ 10,963.52</u>		



PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

Completeness of Recorded Cafeteria Collection, Continued

Finding No. 05-6

Context

Based on auditor's judgment, randomly selected the months of October 2004 and September 2005 for the conduct of audit procedures for program income compliance requirement.

Effect

The lack of monitoring controls to detect unremitted collections resulted to untimely submission of the food court collections that could imply that resources were used for other purposes than what is in accordance with the program requirements, as stated in A-102 Common Rule and OMB-Circular A-110. Such condition could result in a questioned cost for PSS.

Cause

The cause of this condition is the central cashier prepares receipts based solely on actual remittance made. No summary is prepared to ensure that all collections are remitted.

Recommendation

PSS should develop controls to ensure timely and complete remittance of cafeteria collections. A control log per school should be prepared and the person who remits the collection should sign-off beside each school week the date the collections were remitted to central cashier. Based on that log the Treasurer may make timely follow-up to each school that has not yet remitted their collections.

Prior Year Status

The above condition was cited as a finding in the Single Audit of fiscal year 2004.

Auditee Response and Corrective Action Plan

PSS concurs. PSS already started implementing monitoring control stated above to ensure that all collections are completely and timely remitted to the central treasurer.

PSS will hire a Food Court Coordinator, under the supervision of the Food and Nutrition Services (FNS) Administrator, whose main responsibilities is to submit to PSS Treasurer all monies collected at the school level to ensure that policy is strictly followed. He will also be responsible for matching the collections to the food court report submitted by each school to the FNS department.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

Disposal of Fixed Assets

Finding No. 05-7

Criteria

The fixed asset ledger maintained at the Central Office must match the appropriate records of all custodians of the fixed assets.

Condition

The physical count of fixed assets acquired before fiscal year 2005 resulted to the following variance to fixed assets ledger.

	<u>Per Books</u>	<u>Per Count</u>	<u>Difference</u>
Vehicles			
Acquisition costs	\$ 3,515,292	\$ 2,379,889	\$ 1,135,403
Accumulated depreciation	( 3,062,204)	( 1,926,801)	( 1,135,403)
Net Book Value	<u>453,088</u>	<u>453,088</u>	<u>-</u>
Others			
Acquisition costs	1,650,378	1,032,318	618,060
Accumulated depreciation	( 1,376,959)	( 758,899)	( 618,060)
Net Book Value	<u>273,419</u>	<u>273,419</u>	<u>-</u>
Total	<u>\$ 726,507</u>	<u>\$ 726,507</u>	<u>\$ -</u>

Although most of these disposed assets were surveyed and recommended for scrapping, there were no certifications that the said surveyed items have been destroyed, and the tags of these disposed assets were not properly accounted for. The aforementioned requirements are part of PSS' procedure of survey and disposal of PSS properties as per policy 5410.

Cause

The cause of the above condition is that the disposal policy was not properly communicated to the newly hired fixed assets custodian.

Context

Audit procedures performed for capital assets and capital expenditures in accordance with Government Auditing Standards.

Effect

Since there are no records as to how and when these differences were incurred, there is possibility that these may have been lost due to theft or unauthorized use.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

Disposal of Fixed Assets, Continued

Finding No. 05-7

Recommendation

PSS should adhere to its procedures on survey and disposal of PSS properties. Disposals should all be properly documented and updated in the fixed assets ledger. Proper documentation should also be forwarded to fiscal and budget to ensure that corresponding gains or losses from disposal are recorded.

Auditee Response and Corrective Action Plan

PSS concurs. PSS will implement its assets disposal policy and ensure that all subsequent disposals are documented and are communicated to all responsible officials.

PSS will ensure that fixed assets listing will be timely updated for all disposals.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II -- FINANCIAL STATEMENT FINDINGS

Acquisitions of Fixed Assets

Finding No. 05-8

Criteria

Pursuant to PSS policy, all fixed assets should be tagged and identified as PSS property and that the fixed assets ledger shall include proper identification as Federal or Local.

Condition

Five (5) assets acquired in fiscal year 2005 were not included in the fixed asset listing from fixed assets custodian. Since such acquisitions were not included in the fixed assets listing, it is probable that such were neither tagged nor assigned property numbers.

Cause

The cause of the above condition is lack of adherence to the internal control system that facilitates the fixed assets inventory management of PSS. There was insufficient coordination between the Procurement and Fiscal & Budget Office to ensure that appropriate records agree.

Context

Audit procedures performed for capital assets and capital expenditures in accordance with Government Auditing Standards.

Effect

Failure to maintain a property card of a specific fixed asset implies that such asset was not tagged and identified as PSS property. This could result in a possible unauthorized use or disposal of the asset.

Recommendation

PSS should adhere to the approved policies and procedures on property inventory and management.

Prior Year Status

The above condition was cited as a finding in the Single Audit of fiscal year 2004.

Auditee Response and Corrective Action Plan

PSS concurs. PSS will ensure that all acquisitions above \$5,000 are recorded in the fixed assets listing, assigned property number and tagged. PSS Fiscal and Budget will regularly reconcile with property custodian under procurement and supply to ensure that all additions are properly accounted for.

For the assets identified above, PSS will locate these items and have them tagged and shown to the auditor by fiscal 2006 audit.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

Employment Contract

Finding No. 05-9

Criteria

Pursuant to PSS regulation for employment of certified and non-certified personnel, in no event shall any applicant be requested to travel from the point of recruitment to the CNMI to begin employment without the Human Resources Officer (HRO) having in possession a fully executed employment contract. Nor shall any applicant be requested to commence working without the HRO first having a fully executed employment contract with that individual.

Condition

Based on results of audit procedures performed with respect to employee contracts, the following were noted:

- a. For seven (7) or 28% of the twenty-five (25) employee files examined, no employment contract was on file.
- b. Three (3) of the eighteen (18) with employment contract on file were not signed by the employees while two (2) have incomplete contracts.
- c. For two (2) of the twenty-five (25) employee files examined, the rate paid does not agree to the latest documentation on file. For both instances the most recent contract was not on file

Cause

The cause of the above condition is lack of administrative will of the Human Resources Department to pursue employees who have not signed their contract. Furthermore, they do not have monitoring in place to trace the routing of employment contracts to prevent missing contracts.

Context

Audit procedures performed for payroll disbursement to agree rates paid to amounts in the contract.

Effect

The effect of the above condition is non-compliance of the PSS personnel regulation, a violation of the applicable state laws and regulations and federal requirements. Furthermore, failure to maintain updated fully executed contract may result to difference between agreed rates and actual rates paid.

Recommendation

PSS should adhere to the approved policies and procedures on employment of personnel.

Auditee Response and Corrective Action Plan

PSS concurs. PSS through the Human Resources Department will develop a monitoring system to ensure that all employment contracts are fully signed before their effectively.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

Timecards

Finding No. 05-10

Criteria

Pursuant to PSS Employee Regulations, an employee must attend work during the hours assigned by his or her supervisor. Generally, these hours will be from 7:30 AM to 11:30 AM and 12:30 PM to 4:30 PM, Monday through Friday. Timekeepers are responsible to ensure availability of accurate data concerning the time and attendance of employees.

Condition

The current practice of PSS for the employees' time-in and time-out is the use of a bundy clock and the following were noted.

- a. Eleven (11) or 44% of twenty-five (25) personnel examined have manual inputs on their timecards, of these only two have manual inputs that are signed by timekeepers.
- b. Five (5) or 20% of twenty-five (25) personnel examined uses manual timesheets instead of bundy clock.
- c. Timecards for two (2) or 8% of twenty-five (25) personnel chosen were not provided and timecards covering the wrong period were provided for two (2) or 8% of the twenty-five (25).

Cause

The common practice of PSS on the use of bundy clock demonstrates the existence of a control or system on payroll. However, there is no specific policy that would serve as a basic guideline for PSS to properly implement stringent controls on employee time-in and time-out procedures.

Context

The conduct of test of internal control over payroll includes review of the source document of payroll disbursement, which is the time card.

Effect

Lack of specific policies on the time-in and time-out of employees constitutes a weakness in the internal control over payroll.

Recommendation

PSS should develop written policies and procedures that would serve as basic guidelines for PSS to properly implement controls on payroll and other related matters.

Auditee Response and Corrective Action Plan

PSS concurs. PSS will issue a memorandum on the use of bundy clocks, emphasizing that manual input must be countersigned by timekeepers and the reason for manual input should be properly documented and supported if necessary.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

Tardiness

Finding No. 05-11

Criteria

Pursuant to PSS Employee Regulations, PSS will allow up to ten minutes of tardiness each week. Any time in excess of ten minutes per week shall be charged to absent without leave (AWOL) by the timekeeper.

Condition

For 4 out of 25 (16%) of timecards examined, they had tardiness in excess of 10 minutes per week but was not charged to AWOL in accordance with the above regulations.

Cause

The cause of this condition is unknown.

Context

The conduct of test of internal control over payroll includes review of the source document of payroll disbursement, which is the time card.

Effect

Lack of adherence to specific policies on the time-in and time-out of employees constitutes a weakness in the internal control over payroll.

Recommendation

PSS should adhere to its policy on tardiness. If needed, the memorandum issued last September 16, 1998 pertaining to implementation of 7:30 am attendance should be reissued with more emphasis on tardiness.

Auditee Response and Corrective Action Plan

PSS concurs. PSS will issue a memorandum to all employees regarding tardiness and a memorandum to all timekeepers on their responsibility to ensure availability of accurate data concerning the time and attendance of employees.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Program Income - Food and Nutrition Services

Finding No. 05-12

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
10.555	<p><u>Criteria</u> Program income derived from this federal award represents proceeds from the sale of reduced price meals being served to some selected schools. One of the policies and procedures of PSS on food court collections at the school level is to submit all collections received to the PSS Treasurer on a weekly basis.</p> <p><u>Condition</u> Three (3) schools were identified to be not in compliance with the above-mentioned policy. These are summarized in financial statements finding No. 05-6</p> <p><u>Context</u> Based on auditor's judgment, randomly selected the months of October 2004 and September 2005 for the conduct of audit procedures for program income compliance requirement.</p> <p><u>Effect</u> Untimely submission of the food court collections could imply that resources were used for other purposes than what is in accordance with the program requirements, as stated in A-102 Common Rule and OMB-Circular A-110. Such condition could result in a questioned cost for PSS.</p> <p><u>Cause</u> Despite the continued efforts of the Fiscal &amp; Budget Office to ensure that this policy is strictly followed, management oversight and enforcement was not strict enough to properly implement the stated policy.</p>	\$ -



PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Program Income - Food and Nutrition Services, Continued

Finding No. 05-12, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
10.555	<p><u>Recommendation</u> PSS should strictly enforce that food court collections be submitted on time to avoid citation of non-adherence to the approved policies and procedures of PSS and federal regulations.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audit of fiscal year 2004.</p> <p><u>Auditee Response and Corrective Action Plan</u> PSS concurs. PSS will hire a Food Court Coordinator, under the supervision of the FNS Administrator, whose main responsibilities is to submit to PSS Treasurer all monies collected at the school level to ensure that policy is strictly followed. He will also be responsible for matching the collections to the food court report submitted by each school to the FNS department.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program

Finding No. 05-13

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria</u> Pursuant to 45 CFR section 1306.30c, the facilities used by Early Head start and Head Start grantees for regularly scheduled center-based and combination program option classroom activities or home-based group socialization activities must comply with applicable State and local requirements concerning licensing.</p> <p>The local licensing requirements applicable to Headstart are:</p> <ol style="list-style-type: none"><li>1. Fire Safety Inspection from the Department of Public Safety.</li><li>2. Facilities Inspection by the Bureau of Environmental Health.</li></ol> <p><u>Condition</u></p> <ol style="list-style-type: none"><li>a. Two (2) of seven (7) or 29% Head Start centers in Saipan not inspected for fire safety.</li><li>b. Two (2) of seven (7) or 29% Head Start centers in Saipan not inspected for facilities inspection.</li></ol> <p><u>Context</u> Reviewed the Program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program. Obtained copies of the inspections made by the Department of Public Safety and Bureau of Environmental Health.</p> <p><u>Effect</u> The effect of the above condition is that all Headstart centers may be regarded as not yet fully licensed to operate. This is a non-compliance with the federal requirements.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program, Continued

Finding No. 05-13, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Cause</u> The cause of this condition is that PSS failed to follow-up and coordinate the required inspection of Headstart facilities with the concerned agencies.</p> <p><u>Recommendation</u> Although all Headstart centers received Certificate of Occupancy, PSS should still ensure that all Headstart centers be properly inspected to ensure that the centers are in compliance with the local and federal requirements.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audit of fiscal year 2004.</p> <p><u>Auditee Response and Corrective Action Plan</u> PSS concurs. Head Start Policy Council and Board of Education through the Headstart Director who will recommend that Head Start centers not be opened in August unless the proper health and safety inspections have been performed.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program

Finding No. 05-14

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria:</u> In accordance with 45 CFR section 1306.30c, grantees must comply with applicable State and local requirements concerning licensing. One of the requirements includes an approved fire safety inspection from the Department of Public Safety.</p> <p><u>Condition:</u> a. One (1) of the five (5) facilities inspected was disapproved. b. One (1) of the four (4) approved facilities was only conditionally approved.</p> <p><u>Context</u> Reviewed the program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program. Reviewed and examined the inspection reports to verify compliance with the local licensing requirement.</p> <p><u>Effect</u> The effect of the above condition is that Headstart centers may be hazardous for the children and expose them to possible accidents or danger. This is non-compliance with the local and federal requirements.</p> <p><u>Cause</u> The cause of this condition is unknown.</p> <p><u>Recommendation</u> PSS should ensure that all Headstart facilities meet the fire safety standard requirements of the Department of Public Safety to avoid any potential accident and liability.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program, Continued

Finding No. 05-14, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audit of fiscal year 2004.</p> <p><u>Auditee Response and Corrective Action Plan</u> PSS concurs. Head Start Policy Council and Board of Education through the Headstart Director who will recommend that Head Start centers not be opened in August unless the proper fire inspections have been performed.</p>	\$ -

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Equipment and Real Property Management - All major programs

Finding No. 05-15

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
-----------------	-------------------------------	-----------------------------

All

\$ -

Criteria

OMB Circular A-102 requires grantees to comply with the following terms for equipment purchased with federal funds:

1. Maintain property records that include a description of the property; a serial number of other identification number; the source of the property, who holds title; the acquisition date; cost of the property; percentage of federal participation in the cost of the property; the location; use and condition of the property; and any ultimate disposition data including the date of disposal and sale price of the property.
2. Conduct a physical inventory of the property and reconcile that with the property records at least once every two years.
3. Develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of the property, and investigate any loss, damage, or theft.
4. Develop adequate maintenance procedures to keep the property in good condition.

Condition

In FY 2005, PSS failed to reconcile the property records with the fixed assets ledger maintained in the Central Office.

PSS failed to maintain a documentation that would prove that adequate safeguards and maintenance procedures on PSS' federally funded assets were carried out in compliance with the federal property management standards.

This is related to findings Nos. 05-7 and 05-8.

PUBLIC SCHOOL SYSTEM

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Equipment and Real Property Management - All major programs, Continued

Finding No. 05-15, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
-----------------	-------------------------------	-----------------------------

All

\$ -

Context

The conduct of audit procedures for compliance testing requirement of Equipment and Real Property Management in accordance with OMB Circular A-133 includes the following:

1. Inquired if a required physical inventory of fixed assets acquired under Federal awards was taken within the last two years. Test whether any differences between the physical inventory and equipment records were resolved.
2. Selected assets acquired during the audit period and traced them to property records. Verified that property records contain the required information or description about the equipment.
3. Selected a number of assets identified and made physically inspection.

Effect

The effect of the above condition is that PSS is not in compliance with the terms for equipment purchased with federal funds as stated in the OMB circular A-102.

Cause

The cause of the above condition is failure to strictly enforce the existing internal control system over fixed assets.

Recommendation

I recommend that PSS comply with the federal property management standards.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2005

SECTION IV - SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

2004 Audit Findings

Finding No. 04-1

Condition: PSS failed to include a budgetary comparison of its general fund activities in the financial statements. Based on the review of the fund certification inquiry, various accounts showed negative variances. Although a direct control on the PSS' total available funds exists, the inclusion of the budget prepared in its financial statements is necessary based on the policies approved by the Board of Education.

Corrective Action: Resolved. Beginning FY 2005 PSS' enters the original budget per business unit, any adjustment is made at the end of the fiscal year to analyze and compare any significant variances budget to actual expenditures.

Finding No. 04-2

Condition: Various transactions were noted to be services performed on a regular basis by certain vendors that should have been executed by a contract but were availed through issuance of monthly purchase orders. The related amount of the various procured services found to be in noncompliance with PSS procurement rules and regulations totaled \$112,789.

Corrective Action: Resolved. This condition has been corrected by executing a contract of purchases for transactions above \$10,000.

Finding No. 04-3

Condition: Based on the review of the time & pay history of randomly selected PSS employees, we noted two employees who received their lump sum payment for the annual leave earned but went back to PSS for employment within the separation period stated. The lump sum payment made to the identified employees totaled to \$18,067.

Corrective Action: Resolved. Human Resources Office will strictly monitor the regulation. The lump sum payment of annual leave given to these employees will either be offset against their accumulated annual leave or deducted from their salary.



PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2005

Finding No. 04-4

Condition: The current practice of PSS for the employees' time-in and time-out is the use of a bundy clock. Nine out of 57, or 16% of the total timecards examined showed manual input of the hours worked.

In addition, two timecards showed hours marked with "worked at home" and were approved for payroll. Further examined, the approved hours marked with "worked at home" totaled 42 hours. The total hours computed covered the payroll periods from January 11, 2004 through September 30, 2004. Based on the review of the contract, an employee may be assigned by PSS to work at any school, any office, or any facility on the island assigned. An employee's residence is not considered a PSS facility for any work assignment.

Corrective Action: The Director of Finance has informed affected employee regarding workplace, location based on employment contract, wherein an employee maybe assigned to work at school, any office or any PSS facility only.

Status: In FY 2005 audit, there were still several timecards audited with manual input of hours worked.

Finding No. 04-5

Condition: PSS has 26 payroll periods in every fiscal year. In relation to Finding No. 04-4, six time cards for the payroll period of October 1, 2003 to January 10, 2004 were not provided for examination and review.

Corrective Action: The Director of Finance has instructed the timekeeper under Fiscal and Budget Office to keep time cards in the filing cabinet with lock to ensure that all time cards are kept for the purpose of examination.

Status: Similar condition was noted in FY 2005 audit, see finding 05-10.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2005

Finding No. 04-6

Condition: PSS does not adequately monitor adherence to its travel policies based on the following:

- a. 5 out of 16, or 31.25% travel requests examined were not submitted within the stated period prior to the commencement of the travel.
- b. 1 out of 16 travelers traveled without an approved travel authorization. We noted that an approval was subsequently made for the reimbursement of the trip. This incident indicated a violation of the local and federal regulations as the cost was allocated under the federal account.
- c. In relation to the finding cited on Item b above, since the travel did not have a prior authorization, the documents examined did not have a justification memorandum for the travel, document of invitation or agenda, specific purpose, itinerary and estimated cost.
- d. 11 out of 16, or 68.75% travel vouchers were not submitted within the ten working days period upon completion of travel.
- e. 1 out of 16 travelers was paid with a per diem of two days in the amount of \$354. The two days were initially applied as annual leave based on the original justification memorandum submitted; however, an amended letter was subsequently prepared, with an approval of the two days leave as part of the trip.

Corrective Action: PSS has made tremendous efforts to inform employees of the travel policies. PSS will strictly enforce its established policies and procedures. PSS approved several administrative changes in the travel policy to ensure compliance with the applicable state laws and federal regulations.

Status: Similar conditions were noted in FY 2005 audit, see findings 05-3, 05-4 and 05-5.

Finding No. 04-7

Condition: We identified several acquisitions recorded in the fixed assets ledger with no property cards. We also noted that various fixed assets tagged as PSS property were not entered in the fixed asset ledger as additions.

In addition, from the updated list of fixed assets provided by the Property and Inventory Control Officer, various assets were not included in the fixed assets ledger currently maintained by the Fiscal and Budget Office. This condition was resolved through proposed audit adjustments.

Corrective Action: The Procurement and Supply Officer have instructed the Property Custodian to take physical count of all fixed assets to reconcile with the asset ledger maintained at the Central Office. PSS will submit the listing before the end of FY 2005.

Status: Property Custodian conducted the physical count and provided the updated asset listing for our audit but such were not reconciled with the ledger maintained by Central Office.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2005

Finding No. 04-8

Condition: We have identified four invoices that pertained to fundraising events charged under the Head Start Program. These invoices were included in one liquidation report submitted.

Corrective Action: Resolved. PSS Director of Finance will inform Headstart Policy Council to stress that these activities are Parent Fundraising activities, and fundraising activities are not in compliance with federal regulations.

Finding No. 04-9

Condition: In 2 or 5% of the forty (40) disbursements tested, the transactions were noted to be services performed on a regular basis by a certain vendor. This pertains to the maintenance service that PSS avails monthly for all schools. During FY 2004, the total amount paid for this specific vendor charged under the Head Start program totaled \$10,588.

Corrective Action: Resolved. This condition has been corrected by executing a contract of purchases for transactions above \$10,000.

Finding No. 04-10

Condition: Two schools were identified to be not in compliance with the policy on timely remittance of cafeteria collections.

Corrective Action: The FNS Administrator issued a request to Commissioner for his intent to hire four Food Court Coordinators, whose main duty is to account food court collections at the school level and at the same time correct the findings.

Status: Similar condition was noted in FY 2005 audit, see finding 05-6.

Finding No. 04-11

Condition: As indicated in the Program Description of Head Start, all service areas and child development staff must submit monthly reports to the coordinators. No monthly reports were provided for examination.

Corrective Action: Resolved. Since the hiring of component coordinators, monthly reports have been submitted in the service areas and child development. These can be found in the files at the Headstart Office and will be submitted upon request. The monthly reports have been submitted and duly summarized for the HPC and BOE.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2005

Finding No. 04-12

Condition: No quarterly reports were provided for our review and examination.

Corrective Action: Resolved. The newly hired Director for Headstart will closely monitor the performance reporting requirements of PSS as indicated in the Program Description. In addition, she will be responsible in the preparation of monthly, quarterly and annual reports, compiled and to be submitted to the Associate Commissioner for Curriculum and Instruction and the Board of Education.

Finding No. 04-13

Condition: The Annual Self-Assessment report was not prepared and provided for our review and examination.

Corrective Action: Resolved. The yearly Program Information Report is done each year for the Head Start Bureau. This can be provided upon request.

Finding No. 04-14

Condition: PSS lacks a system that will ensure all of the general requirements under the Special Education program are being carried out as planned.

Corrective Action: Resolved. The CSPM for Special Education has been abolished by the US Department of Education. The placing of "highly qualified" personnel is now the responsibility of the PSS Human Resources Department.

Finding No. 04-15

Condition: There was no Memorandum of Understanding (MOU) established with the Commonwealth Health Center (CHC) for the fiscal year 2004. From our 2003 audit, it was explained that no MOU with CHC is required because services performed by this agency should be with no charge. We cited PSS on the failure to update the documentation of its program activities identified in the State Plan.

However, in 2004, we were informed that an agreement was executed for the use of the CHC facilities. The use of facilities is for the audiologist hired by the Special Education Program Office, yet no agreement was provided to confirm compliance on this specific requirement.

Corrective Action: MOU is not required since services of the audiologist to CHC is free of charge.

Status: Although the services is provided free of charge PSS should still have in writing a Memorandum of Understanding or an Interagency Cooperative Agreement should still be executed to clearly establish both agencies' responsibilities. PSS has similar agreement with other agencies, which were executed in writing.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2005

Finding No. 04-16

Condition: The signed interagency agreement with the Department of Community and Cultural Affairs does not include procedures for resolving interagency disputes.

PSS made an addendum to this contract in response to the required inclusion of procedures for resolving interagency disputes. However, all responsible parties have not signed the amended contract, thus, the interagency agreement is not yet fully executed.

Corrective Action: Resolved. The interagency agreement was concluded and submitted to the auditor.

Finding No. 04-17

Condition

- a. Nine (9) of twelve (12) or 75% Head Start centers were only inspected for fire safety.
- b. Four (4) of twelve (12) or 33.33% Head Start centers were only inspected for facilities inspection.

Corrective Action: PSS will ensure that all Headstart centers be properly inspected to ensure that the centers are in compliance with the local and federal requirements.

Status: Similar conditions were noted in FY 2005, see finding 05-13.

Finding No. 04-18

Condition: The six Head Start centers inspected by the Department of Public Safety failed to meet the fire safety standards.

Corrective Action: All centers have fire alarms, fire extinguishers installed and tested and have passed all inspection. All centers have certificate of occupancy.

Status: Similar conditions were noted in FY 2005, see finding 05-14.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2005

Finding No. 04-19

Condition: Two out of the four Head Start centers inspected were given a "B" rating, while one Head Start center was placed under the Public Health inspection. Findings and corrections noted in violation of the Federal regulations are as follows:

- a. No proof was presented to inspectors that the teachers and staffs' health examination were updated.
- b. Water reservoirs were cleaned and sanitize last school year. Water reservoir needs to be washed and sanitized every three months.
- c. Staff were not practicing proper sanitizing procedures for water dispensers. Water dispensers need to be sanitized daily.
- d. There were no paper towel and soap for hand washing.
- e. There was not enough lighting in classroom.

Corrective Action:

- a. All teachers have updated health records or are notified that they need to update health records.
- b. All water reservoirs are cleaned and sanitized regularly.
- c. Janitorial services are hired to sanitize water dispensers daily.
- d. Since the hiring of Facilities Supervisor, hand soap and paper towels are distributed daily.
- e. Facilities Supervisor, ensure that lights are replaced as needed.

Status: Although no Headstart center was suspended for FY 2005, four (4) out of six (6) Headstart inspected still received B rating.

Finding No. 04-20

Condition: In FY 2004, PSS failed to reconcile the property records with the fixed assets ledger maintained in the Central Office.

PSS failed to maintain a documentation that would prove that adequate safeguards and maintenance procedures on PSS' federally funded assets were carried out in compliance with the federal property management standards.

Corrective Action: The Property Control Officer inspected all fixed assets owned by PSS. He also ascertained their location. All records are now on a computer based spreadsheet.

The Property Control Officer works fulltime on the control of all fixed assets and inventories of supplies and materials for the PSS. He inspects all materials and supplies purchased with federal funds that are being used by the private schools. He also oversees the annual inventory count of all fixed assets and inventories.

Status: Property Custodian conducted the physical count and provided the updated asset listing for our audit but such were not reconciled with the ledger maintained by Central Office.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2005

2003 Audit Findings

Finding No. 03-6

Condition: PSS was found to not be in compliance with the local licensing requirements applicable to Headstart.

- a. Two or 16.67% out of twelve Headstart centers were only inspected for fire safety.
- b. Ten or 83.33% out of twelve Headstart centers were only inspected for facilities inspection.

Corrective Action: The Fire Division of the Department of the Public Safety conducted a follow-up fire safety inspection of the nine Headstart centers in Saipan on March 15<sup>th</sup> and 16<sup>th</sup> of 2004. The Tinian Headstart was previously inspected on October 15, 2003.

Similar condition was noted in 2005 Audit in finding 05-12. Head Start Policy Council and Board of Education will jointly hire a new Director who will recommend that Head Start centers not be opened in August unless the proper health and safety inspections have been performed. Appropriate changes to the Head Start regulations are recommended. The Associate Commissioner of Curriculum and Instruction will direct these changes by May 1, 2005.

Finding No. 03-7

Condition: The two Headstart centers inspected by the Department of Public Safety failed to meet the fire safety standards.

Corrective Action: Based on the follow-up fire safety inspection conducted by the Fire Division of the Department of Public Safety, an approved disposition in accordance with the Uniform Fire Code was granted to the nine Headstart centers in Saipan per reports dated March 15<sup>th</sup> and 16<sup>th</sup> of 2004. For the Tinian Headstart Center, a fire safety certification was issued on October 15, 2003 stating that the center has met the fire safety requirements as set forth by Public Law 1-8.

Similar condition was noted in 2005 Audit, see finding 05-13.

PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2005

1999 Audit Findings

Finding No. 99-22

Condition: Ten (10) disbursements or 23% of 43 disbursements tested were travel advances that were not liquidated in accordance with PSS policy.

<u>Date of travel</u>	<u>Date of liquidation</u>	<u>APV #</u>	<u>Amount</u>
05/22/98	06/02/99	1646	\$ 15.00
06/18/98	06/02/99	1638	140.00
07/09/98	06/02/99	1636	1,305.95
02/10/98	06/02/99	1639	85.00
06/16/98	06/02/99	1640	85.00
12/09/97	06/02/99	1644	15.00
06/30/98	06/03/99	1666	15.00
01/30/98	06/02/99	1625	1,745.00
08/03/98	06/02/99	1627	315.00
04/26/98	06/02/99	1637	<u>1,063.55</u>
		Total	<u>\$ 4,784.50</u>

Corrective action: Unresolved. PSS management has already made tremendous efforts to inform employees of the travel advance policies. A new travel policy dated August 1, 2002 was issued regarding strict enforcement of the travel liquidation. The policy indicates that 10% of the total travel advances will be withheld and will be paid out to the traveler only upon liquidation; otherwise, the 10% will be forfeited. From this policy, the management exercised strict adherence fully correcting the findings noted above. Similar condition was noted as finding 05-5 in FY 2005 audit.



PUBLIC SCHOOL SYSTEM

Summary Schedule of Unresolved Questioned Costs  
Year Ended September 30, 2005

III. SUMMARY OF UNRESOLVED QUESTIONED COSTS

	<u>Beginning Questioned Costs</u>	<u>Costs Allowed</u>	<u>Costs Disallowed</u>	<u>Resolved Questioned Costs</u>	<u>Unresolved Questioned Costs</u>
Total prior years questioned costs reported in the fiscal years 1993 through 1997	\$ 915,727	\$ -	\$ -	\$ 846,418	\$ 69,309
1998	491,117	-	-	438,798	52,319
1999	169,426	-	-	169,426	-
2000	-	-	-	-	-
2001	-	-	-	-	-
2002	-	-	-	-	-
2003	-	-	-	-	-
2004	-	-	-	-	-
Total prior year questioned costs at September 30, 2004	1,576,270	-	-	1,454,642	121,628
Questioned costs for fiscal year ending 2005	-	-	-	-	-
Total unresolved questioned costs at September 30, 2005	<u>\$ 1,576,270</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,454,642</u>	<u>\$ 121,628</u>



# COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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



Roman C. Benavente  
Chairman

Dino M. Jones  
Vice Chairman

Marja Lee C. Taitano  
Secretary/Treasurer

Members  
Herman T. Guerrero  
Lucia Blanco-Maratita

Scott Norman  
Non Public School Rep

Alvie Sanchez  
Student Representative

Ambrase Bennett  
Teacher Representative

June 26, 2006

Commissioner of Education  
Rita Hocog Inos, Ed. D

J SCOTT MAGLIARI & COMPANY  
PMB 297 BOX 10000  
Saipan, MP 96950

Dear Mr. Magliari:

We are transmitting herewith our responses to the audit findings and recommendations per your audit report for FY 2005.

We hope that the attached responses are sufficient to address the audit findings and recommendations.

Sincerely,

Richard Waldo  
Director of Finance

cc: BOE  
COE  
ADCA  
file

Finding No. 05-1

PSS concurs. PSS will require collateralization from financial institutions in which there are deposits exceeding federally insured limit effective by end of fiscal year 2006.

Finding No. 05-2

PSS concurs. For both instances, PSS has issued memorandum to concerned employees regarding violation of PSSPR. These memorandum states that consequence for repeat unauthorized procurements includes being held personally liable for the value of the purchase, suspension from work with or without pay, or dismissal from employment.

Finding No. 05-3

PSS concurs. PSS will strictly enforce its established policies and procedures.

PSS prepared a proposed administrative change in the travel policy to ensure compliance with the applicable state laws and federal regulations. Upon approval this policy by beginning of fiscal year 2007, this shall be strictly enforced.

Finding No. 05-4

PSS concurs. PSS will strictly enforce its established policies and procedures.

PSS prepared a proposed administrative change in the travel policy to ensure compliance with the applicable state laws and federal regulations. Upon approval this policy by beginning of fiscal year 2007, this shall be strictly enforced.

Finding No. 05-5

PSS concurs. PSS will strictly enforce its established policies and procedures.

PSS prepared a proposed administrative change in the travel policy to ensure compliance with the applicable state laws and federal regulations. Upon approval this policy by beginning of fiscal year 2007, this shall be strictly enforced.

Finding No. 05-11

PSS concurs. PSS will issue a memorandum to all employees regarding tardiness and a memorandum to all timekeepers on their responsibility to ensure availability of accurate data concerning the time and attendance of employees.

Finding No. 05-12

PSS concurs. PSS will hire a Food Court Coordinator, under the supervision of the FNS Administrator, whose main responsibilities is to submit to PSS Treasurer all monies collected at the school level to ensure that policy is strictly followed. He will also be responsible for matching the collections to the food court report submitted by each school to the FNS department.

Finding No. 05-13

PSS concurs. Head Start Policy Council and Board of Education through the Headstart Director who will recommend that Head Start centers not be opened in August unless the proper health and safety inspections have been performed.

Finding No. 05-14

PSS concurs. Head Start Policy Council and Board of Education through the Headstart Director who will recommend that Head Start centers not be opened in August unless the proper fire inspections have been performed.

Finding No. 05-15

PSS concurs. To facilitate the timely reconciliation of fixed assets listing maintained by the property custodian and the fixed assets ledger maintained by Fiscal and Budget, PSS will ensure that procurement and supply strictly implement its fixed assets acquisition and disposal policy, and communicate timely to the Fiscal and Budget all fixed assets movements.