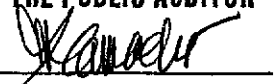


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PUBLIC SCHOOL SYSTEM

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

Years Ended September 30, 2008 and 2007

J. Scott Magliari
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of governmental activities and each major fund of the Commonwealth of the Northern Mariana Islands Public School System (PSS), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), as of September 30, 2008 and 2007, and for the years then ended. These financial statements are the responsibility of PSS' management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PSS' internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinions.

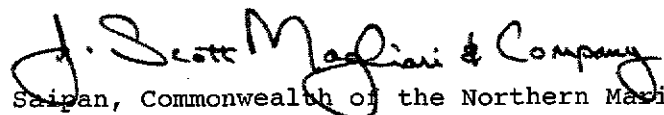
Management and the Board believe that the appropriations receivable from CNMI Government can still be collected despite being over one year overdue, and accordingly, has not considered the need to provide an allowance for uncollectible amounts. Furthermore, the CNMI Government and the PSS have not reconciled the appropriations receivable account of PSS with the payable of the CNMI Government. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables, which would decrease the assets and fund balances and change the expenditures in the general fund. Had management and the Board provided for allowance for uncollectible appropriations, the assets and fund balances of the general fund would decrease by \$4,000,000 and \$2,000,000 in fiscal year 2008 and 2007, respectively, and expenditures in the general fund would increase by \$2,000,000 in both fiscal years.

In my opinion, except for the effects of not providing an adequate allowance for uncollectible appropriations receivable from the CNMI Government as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of PSS as of September 30, 2008 and 2007, and the respective changes in financial position and the respective budgetary comparison for the general fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with the *Government Auditing Standards*, I have also issued my report dated June 5, 2009 on my consideration of PSS' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting, or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis (*MD&A*) and Budgetary Comparison Information on pages 3 to 17 and pages 44 to 45, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of PSS' management. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit this information and express no opinion on it.

My audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise PSS' basic financial statements. The statistical data 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 PSS' management. The statistical data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.


Saipan, Commonwealth of the Northern Mariana Islands
June 5, 2009

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

Management's Discussion and Analysis

This section of the CNMI Public School System (PSS) financial report represents management's discussion and analysis of the financial performance of PSS for the year ended September 30, 2008. This information should be read in conjunction with the audited financial statements and related footnotes included in this report (pages 18 to 44).

Financial Highlights

PSS' enrollment of 11,693 students in fiscal year 2007 decreased to 9,850 students for fiscal year 2008.

PSS' net assets decreased by \$3,207,524 in fiscal year 2008. This decrease was primarily due to the accrual for unfunded retirement contribution of \$6 million offset by the decrease in accrued annual leave.

As of the close of the fiscal year 2008, PSS' total net assets is \$86,437,656. This includes the capital assets, net of accumulated depreciation, of \$86,483,662 and capital improvement projects in progress of \$2,979,773.

Overview of the Financial Statements

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

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

MD&A

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

District-wide Statements

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

Statement of Net Assets

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

Net assets, which is the difference between the school system's assets and liabilities, is one way to measure the district's financial health or position. Over time, increases or decreases in the school system's net assets are an indicator of whether its financial position is improving or deteriorating.

Statement of Activities

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

Fund Financial Statements

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

Balance Sheet

Statement of Revenues, Expenditures, and Changes in Fund Balance

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

Reconciliation from District-wide to Fund Statements

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

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

Management's Discussion and Analysis

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

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

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

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

PSS' net asset, on the district-wide basis, decreased by \$3,207,524 from previous year's \$89,645,180 to \$86,437,656 at close of fiscal year 2008.

Change in Net Assets			
	FY 2008	FY 2007	FY 2006
Net assets, beginning	\$ 89,645,180	\$ 85,899,717	\$ 81,056,161
Revenues	65,546,352	71,643,530	69,838,001
Expenditures	70,260,117	67,898,067	65,523,165
Excess of revenue over expenditures	(4,713,765)	3,745,463	4,314,836
Change in accrued annual leave	1,506,241	-	-
Current year restatements	-	-	528,720
Net assets, ending	\$ 86,437,656	\$ 89,645,180	\$ 85,899,717

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

Management's Discussion and Analysis

Net Assets			
	Sept 30, 2008	Sept 30, 2007	Increase (Decrease)
Current assets	\$ 12,021,273	\$ 12,575,362	\$ (554,089)
Noncurrent assets	89,463,435	88,738,945	724,490
Total assets	101,484,708	101,314,307	170,401
Current liabilities	12,779,689	7,895,523	4,884,166
Noncurrent liabilities	2,267,363	3,773,604	(1,506,241)
Total liabilities	15,047,052	11,669,127	3,377,925
Net Assets	\$ 86,437,656	\$ 89,645,180	\$ (3,207,524)
Investment in capital assets Restricted for improvement projects in progress	\$ 86,483,662	\$ 84,097,616	\$ 2,386,046
Unrestricted	(3,025,779)	906,235	(3,932,014)
Net Assets	\$ 86,437,656	\$ 89,645,180	\$ (3,207,524)

Net Assets			
	Sept 30, 2007	Sept 30, 2006	Increase (Decrease)
Current assets	\$ 12,575,362	\$ 8,292,480	\$ (365,813)
Noncurrent assets	88,738,945	86,353,538	2,385,407
Total assets	101,314,307	94,646,018	2,019,594
Current liabilities	7,895,523	4,845,292	(1,598,464)
Noncurrent liabilities	3,773,604	3,901,009	(127,405)
Total liabilities	11,669,127	8,746,301	(1,725,869)
Net Assets	\$ 89,645,180	\$ 85,899,717	\$ 3,745,463
Investment in capital assets Restricted for improvement projects in progress	\$ 84,097,616	\$ 82,813,078	\$ 1,100,889
Unrestricted	906,235	(453,821)	1,543,705
Net Assets	\$ 89,645,180	\$ 85,899,717	\$ 3,745,463

Net assets is an indicator of the fiscal health of the school system. Assets for governmental activities exceeded liabilities by \$86,437,656 and \$89,645,180 as of September 30, 2008 and 2007, respectively. The largest component of net assets is invested in capital assets amounting to \$86,483,662 and \$84,097,616 at September 30, 2008 and 2007, respectively.

Net assets decreased by \$3,207,524 in fiscal year 2008 and increased by \$3,745,463 in fiscal year 2007. The decrease in net assets in 2008 is primarily due to the accrual of unfunded retirement contribution while the increase in net assets in 2007 is due to increase in capital assets net of accumulated depreciation.

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

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

Revenues

Total revenues for fiscal year 2008 was \$65,546,352, a 9% decrease from fiscal year 2007. While total revenues for fiscal year 2007 was \$71,653,530, a 3% increase from fiscal year 2006.

Revenues			
	Sept 30, 2008	Sept 30, 2007	Increase (Decrease)
Program revenues			
Charges for services	\$ 1,335,432	\$ 1,588,862	\$ (253,430)
Operating grants and contributions	27,688,584	28,511,455	(822,871)
	<u>29,024,016</u>	<u>30,100,317</u>	<u>(1,076,301)</u>
General revenues			
Unrestricted CNMI appropriations	35,847,444	36,721,414	(873,970)
Restricted for capital improvements	674,892	4,817,339	(4,142,447)
Miscellaneous, unrestricted	-	4,460	(4,460)
	<u>36,522,336</u>	<u>41,543,213</u>	<u>(5,020,877)</u>
	<u>\$ 65,546,352</u>	<u>\$ 71,643,530</u>	<u>\$ (6,097,178)</u>

Revenues			
	Sept 30, 2007	Sept 30, 2006	Increase (Decrease)
Program revenues			
Charges for services	\$ 1,588,862	\$ 563,916	\$ 1,024,946
Operating grants and contributions	28,511,455	28,340,642	170,813
	<u>30,100,317</u>	<u>28,904,558</u>	<u>1,195,759</u>
General revenues			
Unrestricted CNMI appropriations	36,721,414	37,209,928	(488,514)
Restricted for capital improvements	4,817,339	3,623,424	1,193,915
Miscellaneous, unrestricted	4,460	100,091	(95,631)
	<u>41,543,213</u>	<u>40,933,443</u>	<u>609,770</u>
	<u>\$ 71,643,530</u>	<u>\$ 69,838,001</u>	<u>\$ 1,805,529</u>

Revenues are classified as either program or general.

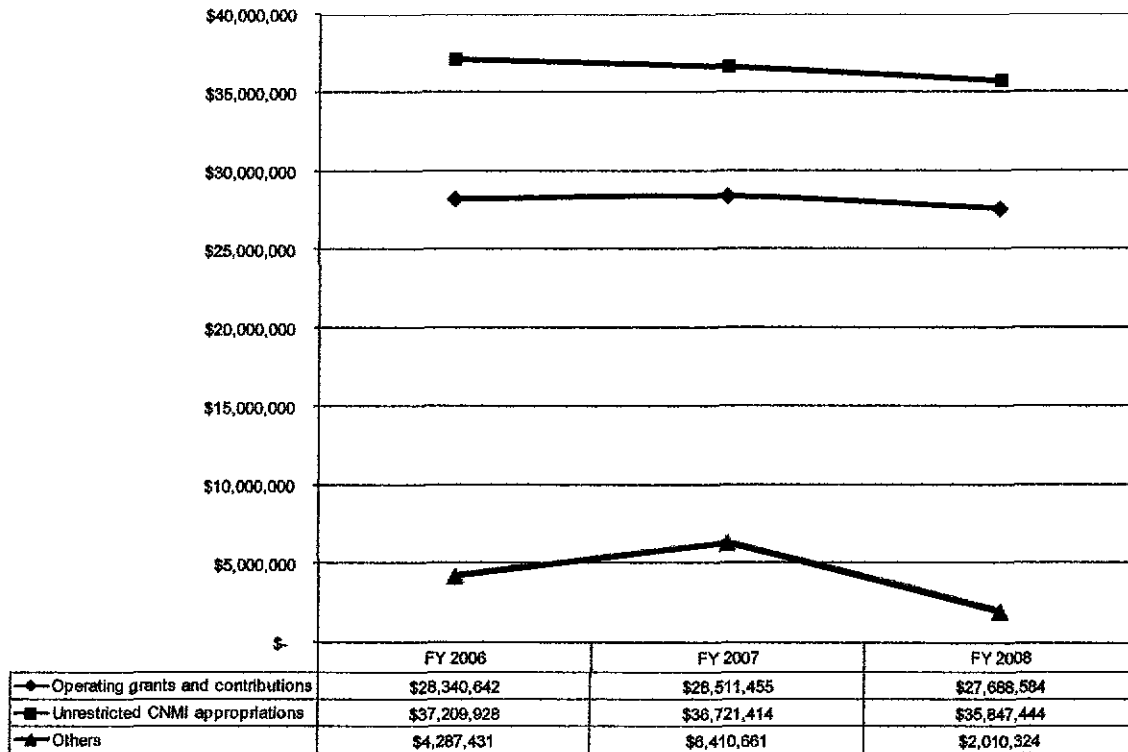
Program revenues are those directly generated by a function or activity of the government entity. Revenue reported as program revenues by PSS pertains to Federal grants, local donations, charges for services and indirect costs allocation.

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

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

Management's Discussion and Analysis

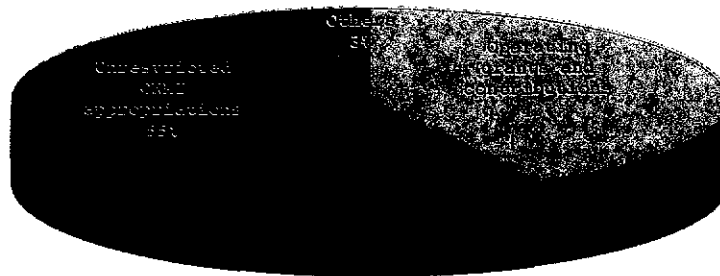
Exhibit I



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

Exhibit II

FY 2008 Revenues



Unrestricted CNMI appropriations constitute 55% of fiscal year 2008 revenues and are the highest source of revenue for PSS.

Operating grants and contributions, which primarily consist of Federal grants, is the second highest source of PSS revenue.

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

Management's Discussion and Analysis

Expenses

Total district-wide expenses by function were as follows:

Expenses			
	Sept 30, 2008	Sept 30, 2007	Increase (Decrease)
Instruction:			
Regular	\$ 25,123,949	\$ 27,264,731	\$ (2,140,782)
Special education	7,623,170	7,736,239	(113,069)
Co-curricular	2,256,001	1,689,239	566,762
Student services	14,202,377	15,353,326	(1,150,949)
	<u>49,205,497</u>	<u>52,043,535</u>	<u>(2,838,038)</u>
Support services:			
General administration	1,894,890	2,824,659	(929,769)
School administration	4,215,690	6,063,156	(1,847,466)
Other support	4,197,538	2,591,846	1,605,692
Community	1,513,102	2,447,867	(934,765)
Individual programs	1,963,403	765,735	1,197,668
Unfunded retirement contribution - unallocated	6,014,334	-	6,014,334
Depreciation - unallocated	1,255,663	1,161,269	94,394
	<u>21,054,620</u>	<u>15,854,532</u>	<u>5,200,088</u>
Total governmental activities	\$ 70,260,117	\$ 67,898,067	\$ 2,362,050

Expenses			
	Sept 30, 2007	Sept 30, 2006	Increase (Decrease)
Instruction:			
Regular	\$ 27,264,731	\$ 28,147,138	\$ (882,407)
Special education	7,736,239	9,099,768	(1,363,529)
Co-curricular	1,689,239	1,319,477	369,762
Student services	15,353,326	16,183,036	(829,710)
	<u>52,043,535</u>	<u>54,749,419</u>	<u>(2,705,884)</u>
Support services:			
General administration	2,824,659	2,277,927	546,732
School administration	6,063,156	3,948,472	2,114,684
Other support	2,591,846	95,485	2,496,361
Community	2,447,867	2,151,237	296,630
Individual programs	765,735	1,379,852	(614,117)
Depreciation - unallocated	1,161,269	920,773	240,496
	<u>15,854,532</u>	<u>10,773,746</u>	<u>5,080,786</u>
Total governmental activities	\$ 67,898,067	\$ 65,523,165	\$ 2,374,902

Total governmental activities expenses increase by \$2,362,050 or 3% as compared to fiscal year 2007. This is primarily due to increase in retirement contributions from 24% to 36.7727%. The unfunded retirement contribution of \$6,014,334 was accrued for the year ended September 30, 2008.

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

Management's Discussion and Analysis

OVERALL FINANCIAL POSITION

The overall financial position of PSS as shown in the fund financial statements (balance sheets and statements of revenues, expenditures, and changes in fund balance) improved by \$576,079 or 12%. The increase was primarily due to increase in Non-major Funds by \$587,296.

FUND ANALYSIS

	Fund Balance			Total
	General Fund	Capital Projects Fund	Non-Major Fund	
Fund balance, 9/30/07	\$ 2,862,359	\$ (25,116)	\$ 892,758	\$ 3,730,001
Fund balance, 9/30/08	2,937,969	(111,943)	1,480,054	4,306,080
Increase (decrease) in fund balance	\$ 75,610	\$ (86,827)	\$ 587,296	\$ 576,079
Percentage change	3%	346%	66%	15%

The general fund and non-major fund revenues exceeded expenses by \$75,610 and \$576,079, respectively.

Included in the general fund balance is the \$4 million appropriations receivable from the CNMI government for which collections are uncertain. If allowance for uncollectibility is recognized on these receivable PSS's general fund balance would be a deficit of \$1,062,031.

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

Management's Discussion and Analysis

GENERAL FUND BUDGETARY HIGHLIGHTS

	General Fund				
	Budget			Actual	Variance Favorable (Unfavorable)
	Original	Revision	Final		
REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-	-
EXPENDITURES:					
Current operations:					
Instructional programs:					
Regular	26,155,400	-	26,155,400	25,053,044	1,102,356
Special	2,155,987	-	2,155,987	1,685,389	470,598
Co-curricular	858,700	-	858,700	733,258	125,442
Total instructional programs	<u>29,170,087</u>	<u>-</u>	<u>29,170,087</u>	<u>27,471,691</u>	<u>1,698,396</u>
Supporting services:					
General administration	262,165	-	262,165	309,906	(47,741)
School administration	3,422,140	-	3,422,140	3,831,176	(409,036)
Individual programs	436,467	-	436,467	330,832	105,635
Other	2,556,585	-	2,556,585	3,828,229	(1,271,644)
Total supporting programs	<u>6,677,357</u>	<u>-</u>	<u>6,677,357</u>	<u>8,300,143</u>	<u>(1,622,786)</u>
Total expenditures	<u>35,847,444</u>	<u>-</u>	<u>35,847,444</u>	<u>35,771,834</u>	<u>75,610</u>
Deficiency of revenues over expenditures	(35,847,444)	-	(35,847,444)	(35,771,834)	75,610
Other financing sources, net:					
Operating transfers-in	<u>35,847,444</u>	<u>-</u>	<u>35,847,444</u>	<u>35,847,444</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,610</u>	<u>\$ 75,610</u>

PSS general fund expenditures for fiscal year 2008 are within the appropriated budget.

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

Management's Discussion and Analysis

Exhibit III

PSS Budget for Fiscal Year 2008



■ Federal grant ■ Local Funds

Federal and Local Budget Review

Year	Total Funding	Federal Funding		Local Funding	
		Amount	%	Amount	%
1999	\$53,730,342	\$16,000,000	30%	\$37,730,342	70%
2000	\$53,280,342	\$17,000,000	32%	\$36,280,342	68%
2001	\$54,230,342	\$17,000,000	31%	\$37,230,342	69%
2002	\$55,230,342	\$18,000,000	33%	\$37,230,342	67%
2003	\$60,230,342	\$23,000,000	38%	\$37,230,342	62%
2004	\$60,730,342	\$23,500,000	39%	\$37,230,342	61%
2005	\$63,032,129	\$25,801,787	41%	\$37,230,342	59%
2006	\$66,582,346	\$29,372,418	44%	\$37,209,928	56%
2007	\$65,357,368	\$28,635,954	44%	\$36,721,414	56%
2008	\$65,381,534	\$29,534,090	45%	\$35,847,444	55%

The contribution of local funding to the total funding has varied between 55% to 70% for the 10-year period from 1999 to 2008. Federal funding continue to increase over the past ten years while local funding significantly declined from \$38 million in 1999 to \$37 million in 2001 and has remained in that level until 2007. In fiscal year 2008, the local funding was further reduced to \$35.8 million.

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

Management's Discussion and Analysis

CAPITAL ASSETS

PSS' investment in capital assets as of September 30, 2008 and 2007 is \$86,483,662 and \$84,097,616, respectively, net of accumulated depreciation. Depreciation expense for the 2008 and 2007 was \$2,143,575 and \$1,796,751, respectively.

Capital Assets			
	Sept 30, 2008	Sept 30, 2007	Sept 30, 2006
Capital assets not depreciated			
Land	\$ 36,647,850	\$ 36,647,850	\$ 36,647,850
Capital assets, net of accumulated depreciation			
Building and improvements	47,917,721	45,993,141	44,211,040
Vehicle	1,587,487	1,065,767	1,449,277
Others	330,604	390,858	504,911
	<u>49,835,812</u>	<u>47,449,766</u>	<u>46,165,228</u>
	<u>\$ 86,483,662</u>	<u>\$ 84,097,616</u>	<u>\$ 82,813,078</u>

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

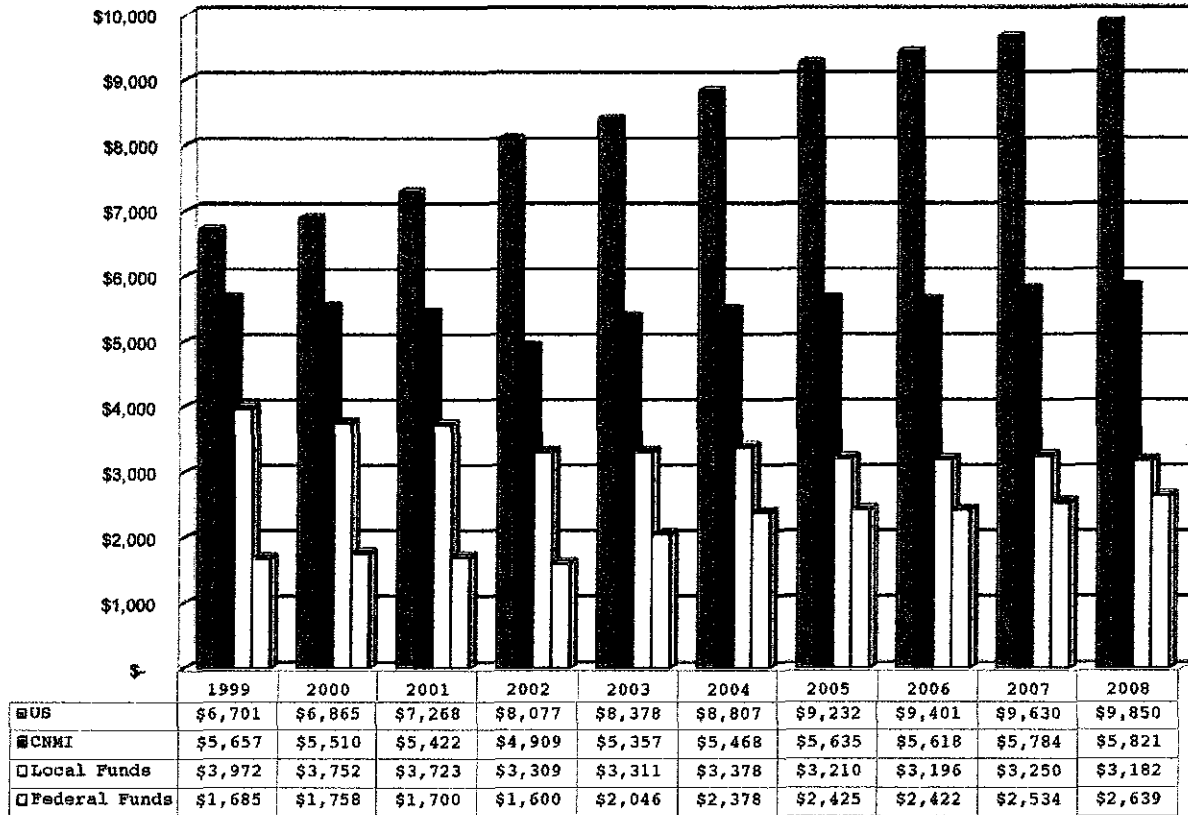
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

OTHER MATTERS

Exhibit IV

COST PER CHILD



Public School Cost per Child: Comparing CNMI to US Average

The cost per child allocation shown on the graph above compares the allocation received per student between the US Mainland and the CNMI. The per student allocation in the US Mainland in 2008 is approximately \$9,850, while their counterparts in the CNMI received only \$5,821. This shows a gap of approximately \$4,029.

This graph also illustrates the per child cost allocation from the CNMI Government and from Federal Government of the CNMI cost per child. The CNMI Government allocates funds to the PSS based on the appropriations law. During fiscal year 2008, the per child allocation received from local government was approximately \$3,182 while the Federal per child allocation received was \$2,639. Over the 10-year period, the CNMI revenue has shown a decline causing the per child allocation to drop. The lowest per child allocation was in fiscal year 2002.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
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Management's Discussion and Analysis

In SY 1997-1998 PSS operated 14 schools with a total annual budget of \$41.7 million and approximately 9,200 students. Since 1998, PSS has added six schools: Dandan Elementary School, Kagman Elementary and High Schools, Sinapalo Elementary School, ChaCha Middle School and Saipan Southern High School. In SY 1999 through 2007, PSS operated 20 schools with approximately 11,000 students with the same \$37 million annual budget which was further reduced to \$35 million in 2008. The new schools received their budgets from reduction in budget from existing schools. However, all the general and administration costs of these schools were financed by reducing Central Office and other existing schools' budgets. Some of the teacher costs of these new schools were financed by reallocating Federal funds. Under the new budget rules passed by the Legislature, the Commissioner of Education is the responsible spending authority. This flexibility has enabled PSS to respond to any school's needs without the permission of the CNMI Government.

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

Teacher Certification and "No Child Left Behind"

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

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

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

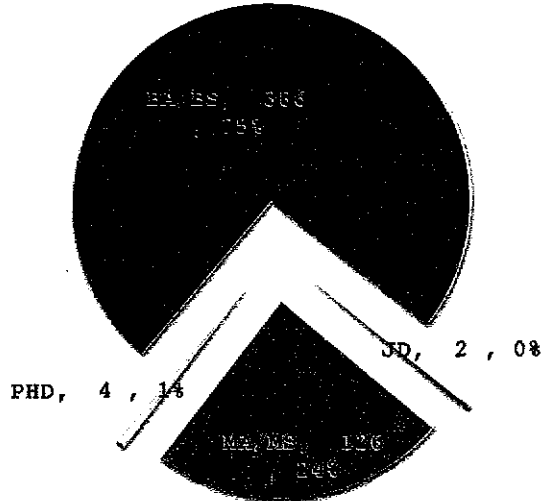
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis

EXHIBIT V

Classroom Teacher Degree Count



Three years ago only 16% of PSS teacher had taken and passed their PRAXIS I and PRAXIS II core content knowledge test. Today 66% have attained Highly Qualified Teacher (HQT) status in accordance with the NCLB Act of 2001 and Board of Education policy by:

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

PSS can project, based on current trend, that 90% of PSS' teachers will be HQT by the beginning of next school year and 100% by SY10-11. Once teachers pass and become HQT, they will receive the HQT salary adjustments.

Headstart and Special Education

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

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

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

Management's Discussion and Analysis

Economic Factors

The Board anticipates an increased enrollment over the next several years and will need continued increases in classroom space, teachers, and equipment. Local funding is a major source of income for the Board, therefore, the CNMI economic outlook directly affects that of the school system. The Commonwealth's two major industries, tourism and garment manufacturing, have been facing major challenges since 1998. The CNMI government has maintained and exceeded its constitutional requirement of 15% of its total budget for public education at elementary and secondary levels. It is impossible to predict the economic outlook of the CNMI, but PSS has weathered a particularly bad storm over the last eight years without the massive layoffs and deficits of many of the states in the US. It has significantly increased its physical plant in spite of the poor economy. It has continued to teach more students with the same total payroll. Granted the Federal funds have helped. The Board, the Commissioner and the staff are aware of the economic pitfalls. All of these factors, as well as the Commonwealth's budget difficulties, were considered in preparing the Board's budget for the 2009 fiscal year. The Board's budget of \$50 million for fiscal year 2009 was created to upgrade the older schools' electrical systems, and to upgrade the structural safety of the older schools. The 2009 Appropriations Law (Public Law 16-32) was appropriated only \$34 million to PSS. PSS will cut expenditures and reduce or eliminate lower priority services, but it will protect core instructional programs and the personnel associated with them.

Requests for Information

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

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

or

Florida A. Grizzard
Acting Director of Finance
PO Box 501370
Saipan, MP 96950

<http://www.pss.cnmi.mp>

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

Statements of Net Assets - Governmental Activities
September 30, 2008 and 2007

	2008	2007
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,034,944	\$ 2,491,087
Receivables from the CNMI Government	5,362,096	2,693,942
Receivables from Federal agencies	1,043,340	2,336,644
Other receivables	83,413	78,084
Advances, net	341,379	326,910
Due from other funds	4,156,101	4,648,695
Total current assets	12,021,273	12,575,362
Noncurrent assets:		
Capital improvement projects in progress	2,979,773	4,641,329
Capital assets, net	86,483,662	84,097,616
Total current assets	89,463,435	88,738,945
TOTAL ASSETS	\$ 101,484,708	\$ 101,314,307
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Current liabilities:		
Accrued payroll and others	\$ 2,179,744	\$ 1,529,214
Unfunded retirement contribution	6,014,334	-
Vouchers payable	428,359	1,310,258
Due to other funds	4,156,101	4,648,695
Deferred revenue	-	406,205
Other liabilities	1,151	1,151
	12,779,689	7,895,523
Noncurrent liabilities:		
Accrued leave liability	2,267,363	3,773,604
Total liabilities	15,047,052	11,669,127
Net Assets:		
Restricted for:		
Investment in capital assets	86,483,662	84,097,616
Capital improvement projects in progress	2,979,773	4,641,329
Unrestricted	(3,025,779)	906,235
Total net assets	86,437,656	89,645,180
TOTAL LIABILITIES AND NET ASSETS	\$ 101,484,708	\$ 101,314,307

See accompanying notes to basic financial statements.

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

Statements of Activities
For the Years Ended September 30, 2008 and 2007

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Total	
				2008	2007
Governmental activities:					
Instruction:					
Regular	\$ 25,123,949	\$ -	\$ -	\$ (25,123,949)	\$ (27,264,731)
Special education	7,623,170	-	6,374,889	(1,248,281)	(2,032,348)
Co-curricular	2,256,001	-	1,522,743	(733,258)	(858,700)
Student services	14,202,377	1,335,432	15,522,201	2,655,256	1,607,295
Total instruction	49,205,497	1,335,432	23,419,833	(24,450,232)	(28,548,484)
Support services:					
General administration	1,894,890	-	863,687	(1,031,203)	(1,439,704)
School administration	4,215,690	-	313,160	(3,902,530)	(3,378,429)
Other support	4,197,538	-	324,500	(3,873,038)	(2,591,846)
Community	1,513,102	-	1,406,802	(106,300)	-
Individual programs	1,963,403	-	1,360,602	(602,801)	(678,018)
Unfunded retirement contribution - unallocated	6,014,334	-	-	(6,014,334)	-
Depreciation - unallocated	1,255,663	-	-	(1,255,663)	(1,161,269)
Total support services	21,054,620	-	4,268,751	(16,785,869)	(9,249,266)
Total governmental activities	\$ 70,260,117	\$ 1,335,432	\$ 27,688,584	\$ (41,236,101)	\$ (37,797,750)
Unrestricted CNMI appropriations				35,847,444	36,721,414
Capital improvement, CNMI				674,892	4,817,339
Miscellaneous, unrestricted				-	4,460
Subtotal, general revenues				36,522,336	41,543,213
Changes in Net Assets				(4,713,765)	3,745,463
Change in accrued annual leave				1,506,241	-
Net assets - beginning				89,645,180	85,899,717
Net assets - ending				\$ 86,437,656	\$ 89,645,180

See accompanying notes to basic financial statements.

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

Balance Sheets
Governmental Funds
September 30, 2008 and 2007

	General Fund	Capital Projects Fund	Non-major Funds	Total Governmental Funds	
				2008	2007
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 1,034,944	\$ -	\$ -	\$ 1,034,944	\$ 2,491,087
Receivables from CNMI	5,281,845	67,020	13,231	5,362,096	2,693,942
Receivables from Federal agencies	-	-	1,043,340	1,043,340	2,336,644
Other receivables	83,413	-	-	83,413	84,098
Advances, net	164,222	-	177,157	341,379	320,896
Due from other funds	1,446,794	-	2,709,307	4,156,101	4,648,695
	<u>\$ 8,011,218</u>	<u>\$ 67,020</u>	<u>\$ 3,943,035</u>	<u>\$ 12,021,273</u>	<u>\$ 12,575,362</u>
TOTAL ASSETS					
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accrued payroll and others	\$ 2,179,744	\$ -	\$ -	\$ 2,179,744	\$ 1,529,214
Vouchers payable	428,359	-	-	428,359	1,310,258
Deferred revenue	-	-	-	-	406,205
Due to other funds	1,514,157	178,963	2,462,981	4,156,101	4,648,695
Other liabilities	1,151	-	-	1,151	1,151
	<u>4,123,411</u>	<u>178,963</u>	<u>2,462,981</u>	<u>6,765,355</u>	<u>7,895,523</u>
Total liabilities					
Fund Balances:					
Reserved for encumbrances	949,838	-	-	949,838	947,990
Unreserved	2,937,969	(111,943)	1,480,054	4,306,080	3,731,849
	<u>3,887,807</u>	<u>(111,943)</u>	<u>1,480,054</u>	<u>5,255,918</u>	<u>4,679,839</u>
Total fund balances					
	<u>\$ 8,011,218</u>	<u>\$ 67,020</u>	<u>\$ 3,943,035</u>		
TOTAL LIABILITIES AND FUND BALANCES					
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.					
			\$ 101,199,093		
			(14,715,431)	86,483,662	84,097,616
				2,979,773	4,641,329
				(6,014,334)	-
Long-term liabilities that are not due and payable in the current period and therefore are not reported as liabilities in the Funds.					
Long-term liabilities at year-end pertains to:					
				(2,267,363)	(3,773,604)
				<u>\$ 86,437,656</u>	<u>\$ 89,645,180</u>
Total net assets - governmental activities					

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Years Ended September 30, 2008 and 2007

	General	Capital	Non-Major	Total Governmental Funds	
	Fund	Projects Fund	Funds	2008	2007
REVENUES:					
Federal	\$ -	\$ -	\$ 26,606,697	\$ 26,606,697	\$ 27,126,500
Local	-	674,892	1,081,887	1,756,779	4,461,715
Charges for services	-	-	1,335,432	1,335,432	1,588,862
TOTAL REVENUES	-	674,892	29,024,016	29,698,908	33,177,077
EXPENDITURES:					
Current operations:					
Instructional programs:					
Regular	25,053,044	-	-	25,053,044	27,208,929
Special	1,685,389	-	5,754,790	7,440,179	7,067,658
Co-curricular	733,258	-	1,522,743	2,256,001	1,689,239
Student services	-	-	13,946,595	13,946,595	15,121,096
Total instructional programs	27,471,691	-	21,224,128	48,695,819	51,086,922
Supporting services:					
General administration	309,906	-	1,550,073	1,859,979	2,917,153
School administration	3,831,176	-	313,160	4,144,336	5,998,360
Individual programs	330,832	-	1,360,602	1,691,434	512,936
Other	3,828,229	89,359	279,950	4,197,538	2,608,455
Total supporting services	8,300,143	89,359	3,503,785	11,893,287	12,036,904
Community services	-	-	1,513,102	1,513,102	2,447,867
Capital outlays:					
Equipment and vehicles	-	-	1,373,597	1,373,597	183,650
Construction in progress	-	672,360	822,108	1,494,468	1,654,003
Total capital outlays	-	672,360	2,195,705	2,868,065	1,837,653
TOTAL EXPENDITURES	35,771,834	761,719	28,436,720	64,970,273	67,409,346
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(35,771,834)	(86,827)	587,296	(35,271,365)	(34,232,269)
OTHER FINANCING SOURCES:					
Operating transfers-in	35,847,444	-	-	35,847,444	36,721,414
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	75,610	(86,827)	587,296	576,079	2,489,145
FUND BALANCE, beginning of year	3,812,197	(25,116)	892,758	4,679,839	2,190,694
FUND BALANCE, end of the year	\$ 3,887,807	\$ (111,943)	\$ 1,480,054	\$ 5,255,918	\$ 4,679,839

See accompanying notes to basic financial statements.

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

Reconciliation of the Governmental Funds Statements of Revenues, Expenditures
And Changes in Fund Balance with the District-wide Statement of Activities
For the Years Ended September 30, 2008 and 2007

	2008	2007
Total net changes in fund balances - governmental funds	\$ 576,079	\$ 2,489,145
Amounts reported for governmental activities in the statements of activities is different because of:		
Accrual for unfunded retirement contribution	(6,014,334)	-
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statements of net assets and allocated over their estimated useful lives as annual depreciation expense in the statements of activities. This is the amount by which capital outlays exceed depreciation in the period.</p>		
Capital outlays	\$ 2,868,065	
Depreciation expense	(2,143,575)	724,490
		1,256,318
Changes in net assets of governmental activities	\$ (4,713,765)	\$ 3,745,463

See accompanying notes to basic financial statements.

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

Combining Balance Sheets - Non-major Funds
September 30, 2008 and 2007

	Federal Grants	Local Donations	CNMI Grants	Indirect Costs	Total	
	Fund	Fund	Fund	Fund	2008	2007
<u>ASSETS</u>						
Receivables from CNMI	\$ -	\$ (1,508)	\$ 14,739	\$ -	\$ 13,231	\$ 13,231
Receivables from Federal agencies	795,601	247,739	-	-	1,043,340	2,336,644
Advances, net	177,157	-	-	-	177,157	137,369
Due from other funds	890,617	677,870	-	1,140,820	2,709,307	2,188,476
	<u>\$ 1,863,375</u>	<u>\$ 924,101</u>	<u>\$ 14,739</u>	<u>\$ 1,140,820</u>	<u>\$ 3,943,035</u>	<u>\$ 4,675,720</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Vouchers payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 376
Deferred revenue	-	-	-	-	-	406,205
Due to other funds	448,926	579,727	155,161	1,279,167	2,462,981	3,376,381
Total liabilities	448,926	579,727	155,161	1,279,167	2,462,981	3,782,962
Fund balance (deficit):						
Reserved for encumbrances	1,414,449	344,374	(140,422)	(138,347)	1,480,054	892,758
	<u>\$ 1,863,375</u>	<u>\$ 924,101</u>	<u>\$ 14,739</u>	<u>\$ 1,140,820</u>	<u>\$ 3,943,035</u>	<u>\$ 4,675,720</u>

See accompanying notes to basic financial statements.

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

Combining Statements of Revenues, Expenditures, and Changes in Fund Balance
Non-major Funds
For the Years Ended September 30, 2008 and 2007

	Federal	Local	CNMI	Indirect	Total	
	Grants	Donations	Grants	Costs	Non-major funds	
	Fund	Fund	Fund	Fund	2008	2007
REVENUES:						
Federal	\$ 26,606,697	\$ -	\$ -	\$ -	\$ 26,606,697	\$ 27,470,444
Other local	-	-	-	1,081,887	1,081,887	1,773,976
Charges for services	-	1,335,432	-	-	1,335,432	855,897
TOTAL REVENUES	26,606,697	1,335,432	-	1,081,887	29,024,016	30,100,317
EXPENDITURES:						
Current operations:						
Instructional programs:						
Special	5,754,790	-	-	-	5,754,790	4,939,474
Co-curricular	1,522,743	-	-	-	1,522,743	830,539
Student services	13,946,595	-	-	-	13,946,595	15,121,096
Total instructional programs	21,224,128	-	-	-	21,224,128	20,891,109
Supporting services:						
General administration	-	686,386	-	863,687	1,550,073	2,670,903
School administration	313,160	-	-	-	313,160	2,675,202
Individual programs	1,360,602	-	-	-	1,360,602	87,717
Fund balance (deficit):	-	279,950	-	-	279,950	-
Total supporting services	1,673,762	966,336	-	863,687	3,503,785	5,433,822
Community services	1,513,102	-	-	-	1,513,102	2,447,867
Capital outlays:						
Equipment and vehicles	1,373,597	-	-	-	1,373,597	159,224
Construction in progress	822,108	-	-	-	822,108	840,677
Total capital outlays	2,195,705	-	-	-	2,195,705	999,901
TOTAL EXPENDITURES	26,606,697	966,336	-	863,687	28,436,720	29,772,699
EXCESS OF REVENUES OVER EXPENDITURES	-	369,096	-	218,200	587,296	327,618
FUND BALANCE (DEFICIT), beginning of the year	1,414,449	(24,722)	(140,422)	(356,547)	892,758	565,140
FUND BALANCE (DEFICIT), end of the year	\$ 1,414,449	\$ 344,374	\$ (140,422)	\$ (138,347)	\$ 1,480,054	\$ 892,758

See accompanying notes to basic financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2008 and 2007

(1) Summary of Significant Accounting Policies

The Commonwealth of the Northern Mariana Islands (CNMI) Public School System (PSS), a component unit of the CNMI, was established as a public non-profit corporation by the CNMI Public Law No. 6-10 (The Education Act of 1988), effective October 25, 1988, and began operations on October 1, 1988.

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

Notes to the Basic Financial Statements
September 30, 2008 and 2007

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

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

Fund Financial Statements: A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording cash and/or other financial resources together with all related liabilities and residual equities and balances, and changes therein, which are segregated for the purpose of carrying 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.

Specific revenues earmarked to finance particular programs and activities of the Public School System are accounted for in Non-major Funds. A summary of PSS' Non-major Funds as of September 30, 2008 and 2007 follows:

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2008 and 2007

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

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

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

The 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.

The financial statements include certain prior-year summarized comparative information in total but not by plan. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended September 30, 2007, from which the summarized information was derived.

C. Measurement Focus and Basis of Accounting

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

District-wide Fund Financial Statements

The governmental activities in the statement of net 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2008 and 2007

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

Government Fund Financial Statements

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or 90 days thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred.

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 and normally would not be liquidated with expendable available financial resources. Budgetary encumbrances are not reported as expenditures.

Government Fund Financial Statements, Continued

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 resources available to finance the program. Expenditures are first applied to restricted resources, when both restricted and unrestricted resources are available.

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

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Notes to the Basic Financial Statements
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(1) Summary of Significant Accounting Policies, Continued

D. Budgetary Data

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

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

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

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(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities and Net Assets

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

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

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

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

3. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as a non-current liability. The liability as of September 30, 2008 and 2007 were \$2,267,363 and \$3,773,604, respectively. No expenditure is reported for these amounts. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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Notes to the Basic Financial Statements
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(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

3. Compensated Absences, Continued

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

4. Revenues

Revenues are classified as either program or general.

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

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

5. Net Assets/Fund Balances

Net assets in the district-wide 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 represent amounts that are not appropriable, are legally segregated for a specific purpose, or are restricted by the grant agreement. Designations of fund balance represent tentative management plans that are subject to change.

The governmental fund types classify fund balances as follows:

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

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

6. Inter-fund balances

PSS uses its general fund for all of its disbursements. Funds are transferred from the special funds as obligations are incurred and draw downs are received.

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(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards

In November 2006, the GASB issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not effective until June 30, 2009. The PSS has not determined its effect on the financial statements.

In June 2007, the GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets". This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010. The PSS has not determined its effect on the financial statements.

G. Use of Estimates

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

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

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustments for 2008 and 2007 consist of several elements as follows:

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

<u>Description</u>	<u>2008</u>	<u>2007</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds: Total capital assets on district-wide statements in governmental activities column)	\$101,199,093	\$ 96,669,471
Accumulated depreciation	<u>(14,715,431)</u>	<u>(12,571,855)</u>
Net capital assets	86,483,662	84,097,616
Capital improvement projects	2,979,733	4,641,329
Accrual for unfunded retirement contribution	(6,014,334)	-
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements: Annual leave liability	<u>(2,267,363)</u>	<u>(3,773,604)</u>
Total adjustment	<u>\$ 81,181,738</u>	<u>\$ 84,965,341</u>

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

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

The governmental statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the district-wide statement of activities. The total adjustments for 2008 and 2007 pertain to the following:

<u>Description</u>	<u>2008</u>	<u>2007</u>
Accrual for unfunded retirement contribution	\$(6,014,334)	\$ -
Capital outlay expenditures recorded in the Statement of Activities.	2,868,065	3,053,069
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the Statement of Activities but not in the fund statements.	<u>(2,143,575)</u>	<u>(1,796,751)</u>
Total adjustments	<u>\$ 5,289,844</u>	<u>\$ 1,256,318</u>

(3) Detail Notes on all Funds

Cash and Cash Equivalents

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

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

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

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

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

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September 30, 2008 and 2007

(3) Detail Notes on all Funds, Continued

Cash and Cash Equivalents, continued

For purposes of the Statement of Net Assets, cash is defined as amounts in demand deposits as well as short-term investments with a maturity date within three months from the date acquired. As of September 30, 2008 and 2007, the total amounts deposited with the Federal Deposit Insurance Corporation (FDIC) insured banks were \$1,034,944 and \$2,491,087, respectively. From these deposits, \$500,000 in 2008 and \$200,000 in 2007 were subject to coverage by FDIC with the remaining balance exceeding insurable limits. PSS requires collateralization of bank accounts, and therefore, amounts in excess of insurable limits are collateralized by securities owned by the banks. PSS has not experienced any losses on these deposits.

Accounts Receivable

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

Receivables at the government-wide level at September 30, 2008 and 2007 are as follows:

Accounts receivable - September 30, 2008

	<u>Receivable from CNMI</u>	<u>Receivable from Federal Agencies</u>
General fund	\$ 5,281,845	\$ -
Non-major fund	13,231	1,043,340
Other governmental activities	<u>67,020</u>	<u>-</u>
Total	<u>\$ 5,362,096</u>	<u>\$ 1,043,340</u>

Accounts receivable - September 30, 2007

	<u>Receivable from CNMI</u>	<u>Receivable from Federal Agencies</u>
General fund	\$ 2,680,711	\$ -
Non-major fund	-	2,336,644
Other governmental activities	<u>13,231</u>	<u>-</u>
Total	<u>\$ 2,693,942</u>	<u>\$ 2,336,644</u>

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September 30, 2008 and 2007

(3) Detail Notes on all Funds, Continued

Travel Advances

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

Travel advances of \$94,520 and \$113,825 as of September 30, 2008 and 2007, respectively, included in the Statement of Net Assets as part of advances, are reported net of an allowance for doubtful accounts of \$272,277 in both years.

Capital Assets

Capital asset activity for the years ended September 30, 2008 and 2007 were as follows:

September 30, 2008

<u>Governmental Activities</u>	<u>2007</u>	<u>Increases</u>	<u>Retirement</u>	<u>2008</u>
Capital assets not being depreciated:				
Land	\$36,647,850	\$ -	\$ -	\$36,647,850
Total capital assets not being depreciated	<u>36,647,850</u>	<u>-</u>	<u>-</u>	<u>36,647,850</u>
Capital assets being depreciated:				
Buildings and improvements	54,187,276	3,156,024	-	57,343,300
Vehicles	4,209,052	1,251,106	-	5,460,158
Other	1,625,294	122,491	-	1,747,785
Total capital assets being depreciated	<u>60,021,622</u>	<u>4,529,621</u>	<u>-</u>	<u>64,551,243</u>
Less accumulated depreciation for:				
Buildings and improvements	8,194,135	1,231,444	-	9,425,579
Vehicles	3,143,285	729,386	-	3,872,671
Other	1,234,436	182,745	-	1,417,181
Total accumulated depreciation	<u>12,571,856</u>	<u>2,143,575</u>	<u>-</u>	<u>14,715,431</u>
Total capital assets being depreciated, net	<u>47,449,766</u>	<u>2,386,046</u>	<u>-</u>	<u>49,835,812</u>
Governmental activity capital assets, net	<u>\$84,097,616</u>	<u>\$ 2,386,046</u>	<u>\$ -</u>	<u>\$86,483,662</u>

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(3) Detail Notes on all Funds, Continued

Capital Assets, Continued

September 30, 2007

<u>Governmental Activities</u>	<u>2006</u>	<u>Increases</u>	<u>Retirement</u>	<u>2007</u>
Capital assets not being depreciated:				
Land	\$36,647,850	\$ -	\$ -	\$36,647,850
Total capital assets not being depreciated	<u>36,647,850</u>	<u>-</u>	<u>-</u>	<u>36,647,850</u>
Capital assets being depreciated:				
Buildings and improvements	51,289,636	2,897,640	-	54,187,276
Vehicles	4,113,397	95,655	-	4,209,052
Other	<u>1,537,300</u>	<u>87,994</u>	<u>-</u>	<u>1,625,294</u>
Total capital assets being depreciated	<u>56,940,333</u>	<u>3,081,289</u>	<u>-</u>	<u>60,021,622</u>
Less accumulated depreciation for:				
Buildings and improvements	7,078,596	1,115,539	-	8,194,135
Vehicles	2,664,120	479,165	-	3,143,285
Other	<u>1,032,389</u>	<u>202,047</u>	<u>-</u>	<u>1,234,436</u>
Total accumulated depreciation	<u>10,775,105</u>	<u>1,796,751</u>	<u>-</u>	<u>12,571,856</u>
Total capital assets being depreciated, net	<u>46,165,228</u>	<u>1,284,538</u>	<u>-</u>	<u>47,449,766</u>
Governmental activity capital assets, net	<u>\$82,813,078</u>	<u>\$ 1,284,538</u>	<u>\$ -</u>	<u>\$84,097,616</u>

Capital Improvements Projects in Progress

Changes in construction in progress for the years ended September 30 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
At beginning of year	\$ 4,641,329	\$ 5,884,966
Additions	1,494,468	1,654,003
Transferred to fixed assets	<u>(3,156,024)</u>	<u>(2,897,640)</u>
At end of year	<u>\$ 2,979,773</u>	<u>\$ 4,641,329</u>

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Notes to the Basic Financial Statements
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(3) Detail Notes on all Funds, Continued

Capital Assets, Continued

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

	2008	2007
Individual programs	\$ 271,969	\$ 252,799
Student services	255,782	6,271
Special education	182,991	203,562
School administration	71,354	74,321
Regular	70,905	63,618
General administration	34,911	34,911
	887,912	635,482
Unallocated depreciation	1,255,663	1,161,269
Total	\$2,143,575	\$1,796,751

Retirement Plan -- Defined Benefit 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. The NMIRF issues a stand-alone financial report, which may be downloaded from its website. 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. Member are eligible for early retirement after 10 years of vesting service and are 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, 2006), it has been determined that for the year ended September 30, 2007, the funding requirement for employer is 36.7727% of covered payroll, and funding requirements for employees are 7.5% and 10.0% of covered payroll for Class I and Class II members, respectively.

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

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(3) Detail Notes on all Funds, Continued

Retirement Plan, Continued

NMIRF 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).

Pursuant to Public Law No. 14-98 PSS is exempted from any rate increase of its employer contribution to the Retirement Fund until November 21, 2010.

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

<u>Fiscal Year Ended</u>	<u>Required Contribution</u>	<u>Percentage of Required Contribution Contributed</u>
9/30/08	\$ 9,772,684	38%
9/30/07	\$ 7,701,162	100%
9/30/06	\$ 8,113,912	100%
9/30/05	\$ 8,587,077	100%

PSS recognized an unfunded retirement contribution of \$6,014,334 for the year ended September 30, 2008. This obligation will be funded through allotment from the CNMI Government as employees retire.

Retirement Fund - Defined Contribution

On June 16, 2006, the CNMI Governor signed Public Law No. 15-47, creating the Defined Contribution Plan, to create portable individual retirement accounts for all new public employees who are hired on or after January 1, 2007. This law also provides the conditions under which certain Class I members of the Retirement Fund may transfer from the existing defined benefit plan to the new defined contribution plan.

Under this retirement plan, employees contribute 10% of their qualified salaries and wages while employers contribute 4%.

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(3) Detail Notes on all Funds, Continued

Retirement Fund – Defined Contribution, Continued

As of September 30, 2008 and 2007, the market value of the defined contribution plan of PSS employees are as follows:

September 30, 2008:

	Participant Count	Average Balance	Total Balance
Active participants with account balances	266	\$ 6,358	\$ 1,691,236
Terminated participants with remaining account balances	<u>-</u>	\$ -	<u>-</u>
	<u>266</u>		<u>\$ 1,691,236</u>

September 30, 2007:

	Participant Count	Average Balance	Total Balance
Active participants with account balances	73	\$ 950	\$ 69,331
Terminated participants with remaining account balances	<u>1</u>	\$ 9,216	<u>9,216</u>
	<u>74</u>		<u>\$ 78,547</u>

Medical and Life Insurance Benefits

In addition to providing pension benefits, the CNMI government also ensures that employees are provided with medical and life insurance benefits. The CNMI government created the Group Health and Life Insurance Trust Fund ("Trust Fund"), held in trust and administered by the Northern Mariana Islands Retirement Fund (NMIRF). PSS contributes to the Group Health and Life Insurance program. This is open to active employees who work at least 20 hours per week and to 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.

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(3) Detail Notes on all Funds, Continued

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.

Transfer-in from CNMI Government

The CNMI Government appropriated \$35,847,444 and \$38,654,120 for PSS' operational use for the fiscal years ended September 30, 2008 and 2007, respectively.

Receivables due from CNMI government under the general fund as of September 30, 2008 and 2007 are summarized as follows:

	2008	2007
Receivable, beginning	\$ 2,680,711	\$ 2,637,823
Appropriation	35,847,444	38,654,120
Budget reduction	-	1,932,706
Total additions	35,847,444	36,721,414
Collections	(32,887,847)	(36,311,312)
Office of Public Auditor	(358,463)	367,214
Total deductions	(33,246,310)	(36,678,526)
Receivable, ending	\$ 5,281,845	\$ 2,680,711

Non-current Liabilities

Non-current liabilities presented in the Statement of Net Assets include accrued leave liability as follows:

	2008	2007
Beginning balance	\$ 3,773,604	\$ 3,901,009
Increase (decrease)	(870,323)	(127,405)
Ending balance	2,903,281	3,773,604
Due within one year	-	-
Accrued leave liability	\$ 2,903,281	\$ 3,773,604

PSS uses local funds to liquidate its accrued leave liability.

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(3) Detail Notes on all Funds, Continued

Operating Lease

PSS leases its office space from the NMIRF on a yearly basis. Rent expense in 2008 and 2007 was \$202,000 in both years.

(4) Contingencies

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

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

(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 No. 11-14. The liability relating to these bonds are recorded by the CNMI Government.

(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 on its employees. At some future date, PSS may insure some of its assets, as an autonomous agency, it is not required to follow the CNMI Government's self-insurance policy.

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

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(7) Economic Dependency

PSS receives a substantial amount of its support from Federal and local governments. In fiscal year ending September 30, 2008, 52% and 41% of total revenues were received from local appropriation and federal grants, respectively. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on PSS' programs and activities.

(8) Fair Value of Financial Instruments

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

(9) Reclassifications

Certain amounts presented in 2007 have been reclassified to conform to 2008 financial statement presentation. These reclassifications had no effect on previously reported results of operations or net assets.

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Required Supplementary Information
Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
Budget (GAAP Basis) and Actual - General Fund
For the Year Ended September 30, 2008

	General Fund				Variance Favorable (Unfavorable)
	Budget			Actual	
	Original	Revision	Final		
REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-	-
EXPENDITURES:					
Current operations:					
Instructional programs:					
Regular	26,155,400	-	26,155,400	25,053,044	1,102,356
Special	2,155,987	-	2,155,987	1,685,389	470,598
Co-curricular	858,700	-	858,700	733,258	125,442
Total instructional programs	<u>29,170,087</u>	<u>-</u>	<u>29,170,087</u>	<u>27,471,691</u>	<u>1,698,396</u>
Supporting services:					
General administration	262,165	-	262,165	309,906	(47,741)
School administration	3,422,140	-	3,422,140	3,831,176	(409,036)
Individual programs	436,467	-	436,467	330,832	105,635
Other	2,556,585	-	2,556,585	3,828,229	(1,271,644)
Total supporting programs	<u>6,677,357</u>	<u>-</u>	<u>6,677,357</u>	<u>8,300,143</u>	<u>(1,622,786)</u>
Total expenditures	<u>35,847,444</u>	<u>-</u>	<u>35,847,444</u>	<u>35,771,834</u>	<u>75,610</u>
Deficiency of revenues over expenditures	(35,847,444)	-	(35,847,444)	(35,771,834)	75,610
Other financing sources, net:					
Operating transfers-in	<u>35,847,444</u>	<u>-</u>	<u>35,847,444</u>	<u>35,847,444</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,610</u>	<u>\$ 75,610</u>

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

(A Component Unit of the CNMI Government)

Required Supplementary Information
General Fund

Statements of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended September 30, 2008
(With Comparative Actual Amounts for the fiscal year ended September 30, 2007)

	2008			2007
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
REVENUES	\$ -	\$ -	\$ -	\$ 4,460
Total revenues	-	-	-	4,460
EXPENDITURES:				
Current operations:				
Instructional programs:				
Regular	26,155,400	25,053,044	1,102,356	27,208,929
Special	2,155,987	1,685,389	470,598	2,128,184
Co-curricular	858,700	733,258	125,442	858,700
Total instructional programs	29,170,087	27,471,691	1,698,396	30,195,813
Supporting services:				
General administration	262,165	309,906	(47,741)	246,250
School administration	3,422,140	3,831,176	(409,036)	3,323,158
Individual programs	436,467	330,832	105,635	425,219
Other	2,556,585	3,828,229	(1,271,644)	2,577,400
Total supporting programs	6,677,357	8,300,143	(1,622,786)	6,572,027
Capital outlays:				
Equipment and vehicles	-	-	-	7,816
Construction in progress	-	-	-	-
Total capital outlay	-	-	-	7,816
Total expenditures	35,847,444	35,771,834	75,610	36,775,656
Deficiency of revenues over expenditures	(35,847,444)	(35,771,834)	75,610	(36,771,196)
Other financing sources:				
Operating transfers-in	35,847,444	35,847,444	-	36,721,414
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ 75,610	\$ 75,610	\$ (49,782)

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2008

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

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2008

Federal Grantor/Program Title	CFDA Number	Program or Award Amount FY 2008	Adjustments	Revenues FY 2008	Expenditures FY 2008	Receivable
						From Grantor (Deferred Revenue) at 09/30/07
U.S. Department of Education						
Direct Programs						
Consolidated Grant Fund for the Improvement of Education/Christa McAuliffe Grant	84.922	\$ 9,207,959	\$ (149,025)	\$ 8,809,369	\$ (8,809,369)	\$ 251,121
Freely Associated States Education Grant Pro Literacy through School Libraries	84.215	-	-	-	-	(3,848)
Special Education - State Personnel Development	84.256	971,111	(52,276)	1,361,840	(1,361,840)	16,723
Special Education - Grants for Infants and Families	84.364	11,487	(12,610)	82,941	(82,941)	1,187
Common Core	84.027	4,713,210	9,920	4,241,571	(4,241,571)	168,393
Byrd Honors Scholarships	84.323	131,200	2,490	147,733	(147,733)	3,123
Total U.S. Department of Education		15,549,488	(202,400)	15,035,454	(15,035,454)	380,190
U.S. Department of Agriculture						
Direct Programs						
National School Lunch Program	10.555	7,154,454	(161,447)	6,388,332	(6,388,332)	13,461
U.S. Department of Health and Human Services						
Direct Programs						
Head Start	93.600	2,350,920	15,403	1,985,585	(1,985,585)	110,271
Child Care and Development Block Grant	93.575	-	(15,916)	725,316	(725,316)	(6,125)
Aids-HIV	93.938	102,500	(3,131)	80,642	(80,642)	149
Total U. S. Department of Health and Human Services		2,453,420	(3,644)	2,791,543	(2,791,543)	104,295
U.S. Department of Transportation						
Direct Programs						
Federal Transit Bus	20.509	962,130	(7,500)	1,360,602	(1,360,602)	-
Balance carried forward		\$ 26,119,492	\$ (374,991)	\$ 25,575,931	\$ (25,575,931)	\$ 497,946

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

Schedule of Expenditures of Federal Awards
 Federal Grants Fund
 Year Ended September 30, 2008

Federal Grantor/Program Title	CFDA Number	Program or Award Amount FY 2008	Receivable From		Adjustments	Revenues FY 2008	Expenditures FY 2008	Receivable From Grantor (Deferred Revenue) at 09/30/08
			09/30/07	09/30/08				
Balance brought forward		\$ 26,119,492	\$ 872,937	\$ (374,991)	\$ 25,575,931	\$ (25,575,931)	\$ 497,946	
Other								
Direct Programs								
Americorps	94.006	350,933	8,534	(1,720)	393,106	(393,106)	6,814	
Hazzard Mitigation	FEMA	324,500	-	-	324,500	(324,500)	-	
Total other Agencies		675,433	8,534	(1,720)	717,606	(717,606)	6,814	
Department of Interior								
Pass Through the CNMI Government								
Compact Impact Grant - School Renovation	15.875	2,000,000	1,253,146	(962,305)	313,160	(313,160)	290,841	
Total Federal Grants Fund		\$ 28,794,925	\$ 2,134,617	\$ (1,339,016)	\$ 26,606,697	\$ (26,606,697)	\$ 795,601	

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

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2008

(1) Scope of Review

The Public School System (PSS) was established as a public non-profit corporation by the Commonwealth of the Northern Mariana Islands (CNMI) Public Law No. 6-10, effective October 25, 1988 and began operations on October 1, 1988. All significant operations of PSS are included in the scope of the 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 Education for fiscal year 2008. The approved rates are as follows:

Indirect cost rate	7.31%
Restricted rate	3.92%

The above rates are based on total direct salaries and wages, excluding benefits.

SUPPLEMENTARY INFORMATION

STATISTICAL SECTION

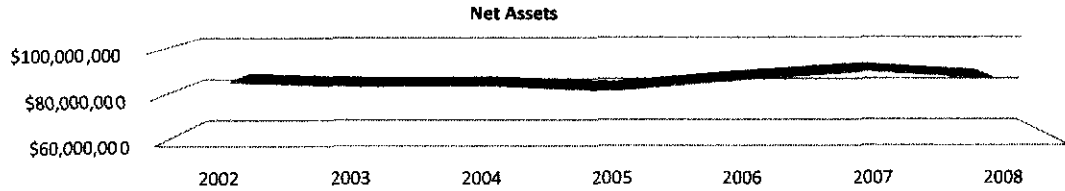
Year Ended September 30, 2008

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

Statistical Section
Last Seven Fiscal Years¹

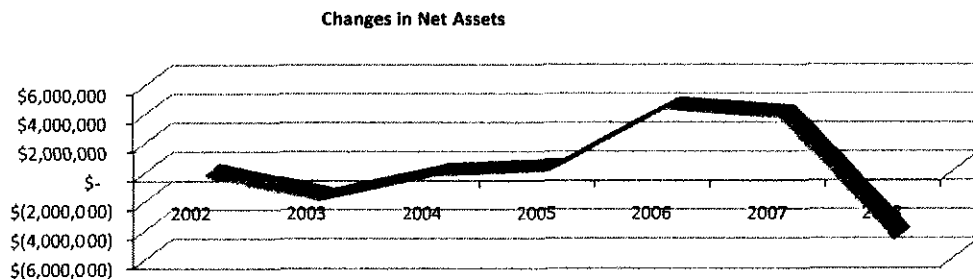
I. NET ASSETS

	2008	2007	2006	2005	2004	2003	2002
Invested in capital assets	\$ 86,483,662	\$ 84,097,616	\$ 82,813,078	\$ 79,066,700	\$ 80,139,357	\$ 79,687,750	\$ 74,998,775
Invested in improvement projects in progress	2,979,773	4,641,329	3,540,460	3,156,692	1,907,967	1,888,369	8,511,378
Unrestricted	(3,025,779)	906,235	(453,821)	(1,167,231)	1,455,306	1,596,239	1,606,555
	\$ 86,437,656	\$ 89,645,180	\$ 85,899,717	\$ 81,056,161	\$ 83,502,630	\$ 83,172,358	\$ 85,116,708



II. CHANGES IN NET ASSETS

	2008	2007	2006	2005	2004	2003	2002
Program revenues							
Grants and contributions	\$ 27,688,584	\$ 28,511,455	\$ 28,340,642	\$ 34,635,642	\$ 23,539,319	\$ 23,492,622	\$ 16,848,756
Charges for service	1,335,432	1,588,862	563,917	140,100	142,745	116,152	60,685
Total program revenues	29,024,016	30,100,317	28,904,559	34,775,742	23,682,064	23,608,774	16,909,441
Expenses	(70,260,117)	(67,898,067)	(65,523,166)	(73,338,189)	(61,261,826)	(63,372,920)	(54,920,411)
General revenues							
Unrestricted CNMI appropriations	35,847,444	36,721,414	37,209,928	37,404,908	37,209,928	37,794,725	36,830,342
Capital improvement, CNMI	674,892	4,817,339	3,623,424	1,234,174	-	-	-
Miscellaneous, unrestricted	-	4,460	100,091	-	140,316	25,071	943,255
Total general revenues	36,522,336	41,543,213	40,933,443	38,639,082	37,350,244	37,819,796	37,773,597
Changes in net assets	(4,713,765)	3,745,463	4,314,836	76,635	(229,518)	(1,944,350)	(237,373)
Current year restatement	1,506,241	-	528,720	(2,523,104)	559,790	-	-
Net assets - beginning	89,645,180	85,899,717	81,056,161	83,502,630	83,172,358	85,116,708	85,354,081
Net assets - ending	\$ 86,437,656	\$ 89,645,180	\$ 85,899,717	\$ 81,056,161	\$ 83,502,630	\$ 83,172,358	\$ 85,116,708



¹ Beginning in fiscal year ending September 30, 2002, PSS implemented the reporting requirements of GASB Statement No. 35. Since the prior years financial information has not been restated only the past seven fiscal years information are presented.

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

Statistical Section
Last Seven Fiscal Years¹

III. REVENUES BY SOURCE

<i>in thousands</i>	2008		2007		2006		2005	
Unrestricted CNMI appropriations	\$ 35,847	54.7%	\$ 36,721	51.3%	\$ 37,210	53.3%	\$ 37,405	51.0%
Grants and contributions	27,689	42.2%	28,512	39.8%	28,341	40.6%	34,636	47.2%
Capital improvement, CNMI	675	1.0%	4,817	6.7%	3,623	5.2%	1,234	1.7%
Charges for service	1,335	2.0%	1,589	2.2%	564	0.8%	140	0.2%
Miscellaneous, unrestricted	-	0.0%	4	0.0%	100	0.1%	-	0.0%
	\$ 65,546	99.9%	\$ 71,643	100.0%	\$ 69,838	100.0%	\$ 73,415	100.1%

<i>in thousands</i>	2004		2003		2002	
Unrestricted CNMI appropriations	\$ 37,210	61.0%	\$ 37,795	61.5%	\$ 36,830	67.4%
Grants and contributions	23,539	38.6%	23,493	38.2%	16,849	30.8%
Capital improvement, CNMI	-	0.0%	-	0.0%	-	0.0%
Charges for service	143	0.2%	116	0.2%	61	0.1%
Miscellaneous, unrestricted	140	0.2%	25	0.1%	943	1.7%
	\$ 61,032	100.0%	\$ 61,429	100.0%	\$ 54,683	100.0%

IV. EXPENSES BY FUNCTION

<i>in thousands</i>	2008		2007		2006		2005	
Instruction:								
Regular	\$ 25,124	35.7%	\$ 27,265	40.3%	\$ 28,147	43.1%	\$ 28,694	39.2%
Special education	7,623	10.8%	7,736	11.4%	9,100	13.9%	10,203	13.9%
Co-curricular	2,256	3.2%	1,689	2.5%	1,319	2.0%	1,482	2.0%
Student services	14,202	20.2%	15,353	22.7%	16,183	24.8%	20,513	28.0%
Support services:								
General administration	1,895	2.7%	2,825	4.2%	2,278	3.5%	3,035	4.1%
School administration	4,216	6.0%	6,063	8.9%	3,948	6.0%	4,789	6.5%
Other support	4,198	6.0%	2,592	3.8%	95	0.1%	179	0.2%
Community	1,513	2.2%	2,448	3.6%	2,151	3.3%	2,633	3.6%
Individual programs	1,963	2.8%	766	1.1%	1,380	2.1%	780	1.1%
Unfunded retirement	6,014	8.6%	-	0.0%	-	0.0%	-	0.0%
Depreciation - unallocated	1,256	1.8%	1,161	1.7%	922	1.4%	1,030	1.4%
	\$ 70,260	100.0%	\$ 67,898	100.2%	\$ 65,523	100.2%	\$ 73,338	100.0%

<i>in thousands</i>	2004		2003		2002	
Instruction:						
Regular	\$ 27,948	45.7%	\$ 28,492	45.0%	\$ 27,089	49.4%
Special education	9,498	15.5%	8,623	13.6%	7,088	12.9%
Co-curricular	1,071	1.7%	98	0.2%	725	1.3%
Student services	10,414	17.1%	13,509	21.2%	8,529	15.5%
Support services:						
General administration	2,786	4.5%	1,656	2.6%	2,105	3.8%
School administration	4,676	7.6%	4,606	7.3%	3,980	7.2%
Other support	184	0.3%	1,043	1.6%	1,520	2.8%
Community	2,477	4.0%	2,630	4.2%	1,843	3.4%
Individual programs	869	1.4%	686	1.1%	900	1.6%
Unfunded retirement	-	0.0%	-	0.0%	-	0.0%
Depreciation - unallocated	1,339	2.2%	2,030	3.2%	1,142	2.1%
	\$ 61,262	100.0%	\$ 63,373	100.0%	\$ 54,921	100.0%

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

Statistical Section
Last Eight School Years

V. HISTORICAL ENROLLMENTS

	07-08	06-07	05-06	04-05	03-04	02-03	01-02	00-01
Headstart	462	664	656	657	663	697	620	626
Early Intervention	58	-	-	-	-	-	-	-
Advance Development Institute	37	-	-	-	-	-	-	-
Elementary								
GTC	237	220	213	224	227	236	235	213
Tanapag	237	236	289	261	265	283	270	302
Garapan	838	881	835	861	848	898	969	865
San Vicente	766	807	765	757	765	715	653	649
Dandan	455	485	483	468	445	425	424	388
Oleia	521	476	478	481	457	443	422	419
WSR	685	684	655	625	596	667	608	642
San Antonio	333	333	329	372	363	345	366	359
Kagman	645	724	765	743	722	715	757	674
Koblerville	463	449	470	452	458	479	448	470
Tinian	295	320	302	310	353	380	393	388
Sinapalo/Rota	231	261	276	275	268	263	283	341
Total elementary	5,706	5,876	5,860	5,829	5,767	5,849	5,828	5,710
Secondary								
Hopwood	1,106	1,184	1,108	995	928	962	1,332	1,253
MHS	1,198	1,225	1,279	1,216	1,154	1,020	2,103	1,852
ChaCha	522	513	529	670	582	599	-	-
KHS	766	802	835	809	706	697	-	-
Tinian High	320	337	352	348	323	309	297	272
Rota Jr. High	150	153	145	140	142	155	158	97
Rota High	169	189	202	194	201	180	184	194
Saipan Southern	805	750	752	745	778	783	-	-
Total secondary	5,036	5,153	5,202	5,117	4,814	4,705	4,074	3,668
Grand Total	11,299	11,693	11,718	11,603	11,244	11,251	10,522	10,004