

PUBLIC SCHOOL SYSTEM

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

Year Ended September 30, 2014

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands Public School System (PSS), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of PSS, as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 4 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PSS' basic financial statements. The combining nonmajor fund financial statements and the Schedule of Expenditures/Expense, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, We have also issued our report dated March 31, 2015, on our consideration of PSS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PSS' internal control over financial reporting and compliance.


Saipan, Commonwealth of the Northern Mariana Islands
March 31, 2015



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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



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This section of the CNMI Public School System financial report represents management's discussion and analysis of the financial performance of PSS for the year ended September 30, 2014. Because the intent of this management discussion and analysis is to look at financial performance as a whole, readers should also review the financial statements and notes to the basic financial statements to further enhance their understanding of PSS' financial performance.

FINANCIAL HIGHLIGHTS

At the close of Fiscal year 2014, PSS' net position amounted to \$49,097,219, a decrease of \$1,074,027 or 2%, from \$50,171,246 in fiscal year 2013. This decrease was primarily due to excess expenses over revenues. PSS total expenses for fiscal year 2014 amounted to \$65,372,622 while aggregate support from Federal Agencies, CNMI appropriations and other revenues of only \$64,298,595.

PSS' net position includes investment in capital assets, net of accumulated depreciation, of \$78,137,682, capital improvement projects in-progress of \$1,051,447, restricted for special purpose of \$1,087,689 and deficit of \$31,179,599.

PSS' enrollment of for school year 2013-2014 was 10,635 students. There was a mere 11 student decrease from 10,646 students for school year 2012-2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government Accounting Standards requires the presentation of the 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.

Management Discussion and Analysis (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.

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Management's Discussion and Analysis
September 30, 2014

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 Position and the Statement of Activities.

Statement of Net Position

The Statement of Net Position 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 position, which is the difference between the school system's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, is one way to measure the district's financial health or position. Over time, increases or decreases in PSS' net position 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.

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Governmental-fund Financial Statements

The second type of Statements included in the basic financial statements is the Governmental-fund Financial Statements, which is presented for the school system's governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the district-wide financial statements. However, unlike the district-wide financial statements, governmental-fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year for spending in future years. Such information may be useful in evaluating a government's near-term financing requirements.

These funds are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. Governmental-fund financial statements provide a detailed short-term view of the school district's operations and the services it provides. Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund *balance sheet* and the *governmental fund statement of revenues, expenditures, and changes in fund balance* provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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.

Federal Fund - Accounts for PSS' Grants from Federal Agencies.

Non-major Funds – Accounts for the proceeds of the other specific revenue sources and the other funds that are not major.

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Condensed Statement of Net Position

	2014	2013	2012
Current assets	\$ 8,212,679	\$ 5,740,906	\$ 8,888,543
Capital improvement projects	1,051,447	1,051,447	1,890,803
Capital assets, net	78,137,682	80,458,805	81,033,173
Total assets	87,401,808	87,251,158	91,812,519
<i>Change against prior year - dollar amount</i>	150,650	(4,561,361)	(6,989,470)
<i>Change against prior year - percent</i>	0%	-5%	-7%
Current liabilities	11,093,428	10,623,378	12,816,032
Noncurrent liabilities	25,987,391	25,162,535	24,823,165
Total liabilities	37,080,819	35,785,913	37,639,197
<i>Change against prior year - dollar amount</i>	1,294,906	(1,853,284)	(870,935)
<i>Change against prior year - percent</i>	4%	-5%	-2%
Deferred inflows of resources	1,223,770	1,293,999	1,539,850
<i>Change against prior year - dollar amount</i>	(70,229)	(245,851)	1,539,850
<i>Change against prior year - percent</i>	-5%	-16%	100%
Investment in capital assets and capital improvement projects	79,189,129	81,510,252	82,923,976
Restricted for special purpose	1,087,689	1,087,689	1,095,886
Deficit	(31,179,599)	(32,426,695)	(31,386,390)
Net position	\$ 49,097,219	\$ 50,171,246	\$ 52,633,472
<i>Change against prior year - dollar amount</i>	(1,074,027)	(2,462,226)	(7,658,385)
<i>Change against prior year - percent</i>	-2%	-5%	-13%

- Current assets of \$8,212,679 as of September 30, 2014 increased by \$2,471,773 compared to current assets \$5,740,906 as of September 30, 2013 due to increase in cash by \$2,215,788 or 41%. The increase in current assets can also be attributed to the timing of receipts against the payment of liabilities, it can be noted that liabilities increased by \$2,856,091 compared to 2013.
- The decrease in capital assets is primarily due to depreciation expense.

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- Current liabilities of \$11,093,428 as of September 30, 2014 increased by \$470,050 compared to \$10,623,378 as of September 30, 2013 due to timing of payments to vendors.
- There were no significant change in noncurrent liabilities, which consist primarily of the unfunded payable to the Northern Mariana Islands Retirement Fund (Retirement Fund) and accrued compensated absences.
- Deferred inflows of resources pertains to monies received in advance from federal and local sources. There were no significant change in the account balance as activities are consistent with prior year.
- Overall deficit decreased by \$1,247,096 or 4% from \$32,426,695 in 2013 to \$31,179,599 in 2014. This means that for PSS to pay all its creditors, including the Retirement Fund, PSS needs \$31,179,599. PSS as a public school does not generate its own revenue and relies heavily upon grants and appropriations to finance its current operations and to pay its obligations. If the level of appropriations continue to drop, it would not be sufficient to finance current operations and the deficit will continue to increase.

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Condensed Statements of Activities

	2014	2013	2012
Revenues:			
Program revenues	\$ 31,127,438	\$ 29,538,995	\$ 33,345,815
General revenues	33,171,157	31,020,813	31,439,537
Total revenues	64,298,595	60,559,808	64,785,352
<i>Change against prior year - dollar amount</i>	<i>3,738,787</i>	<i>(4,225,544)</i>	<i>(23,456,859)</i>
<i>Change against prior year - percent</i>	<i>6%</i>	<i>-7%</i>	<i>-27%</i>
Expenses:			
Instruction	58,564,601	57,458,511	58,446,697
Support services	6,808,021	6,069,833	13,997,040
Total expenses	65,372,622	63,528,344	72,443,737
<i>Change against prior year - dollar amount</i>	<i>1,844,278</i>	<i>(8,915,393)</i>	<i>(24,162,975)</i>
<i>Change against prior year - percent</i>	<i>3%</i>	<i>-12%</i>	<i>-25%</i>
Change in net position	(1,074,027)	(2,968,536)	(7,658,385)
Prior year restatement	-	506,310	-
Net position, beginning	50,171,246	52,633,472	60,291,857
Net position, ending	\$ 49,097,219	\$ 50,171,246	\$ 52,633,472
<i>Change against prior year - dollar amount</i>	<i>(1,074,027)</i>	<i>(2,462,226)</i>	<i>(7,658,385)</i>
<i>Change against prior year - percent</i>	<i>-2%</i>	<i>-5%</i>	<i>-13%</i>

- The overall increase in revenues and related expenses is due to increase in CNMI appropriations by \$2,122,860, increase in U.S. Department of Education Consolidated Grants by \$1,181,546 and increase in U.S. Department of Agriculture National School Lunch Program Grant by \$707,155, offset by an aggregate decrease in other grants.

A more detailed revenues and expenses discussion follows.

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Revenues

	2014	2013	Difference	% Change
Program revenues				
Charges for services	\$ 807,767	\$ 1,006,314	\$ (198,547)	-20%
Grants and contributions	30,319,671	28,532,681	1,786,990	6%
Total program revenues	31,127,438	29,538,995	1,588,443	5%
General revenues				
CNMI Appropriation	32,362,721	30,239,861	2,122,860	7%
Miscellaneous	808,436	780,952	27,484	4%
Total general revenues	33,171,157	31,020,813	2,150,344	7%
Total revenues	\$ 64,298,595	\$ 60,559,808	\$ 3,738,787	6%

	2013	2012	Difference	% Change
Program revenues				
Charges for services	\$ 1,006,314	\$ 592,631	\$ 413,683	70%
Grants and contributions	28,532,681	32,753,184	(4,220,503)	-13%
Total program revenues	29,538,995	33,345,815	(3,806,820)	-11%
General revenues				
CNMI Appropriation	30,239,861	29,619,462	620,399	2%
Miscellaneous	780,952	1,820,075	(1,039,123)	-57%
Total general revenues	31,020,813	31,439,537	(418,724)	-1%
Total revenues	\$ 60,559,808	\$ 64,785,352	\$ (4,225,544)	-7%

Total revenues for fiscal year 2014 were \$64,298,595, a \$3,738,787 or 6% increase from fiscal year 2013. The increase in 2014 revenue is primarily due to increase in revenues from federal grants and CNMI appropriations.

Total revenues for fiscal year 2013 were \$60,559,808, a \$4,225,544 or 7% decrease from fiscal year 2012. The decrease 2013 in revenue is primarily due to decrease in revenue from federal grants primarily related to the American Recovery and Reinvestment Act grants.

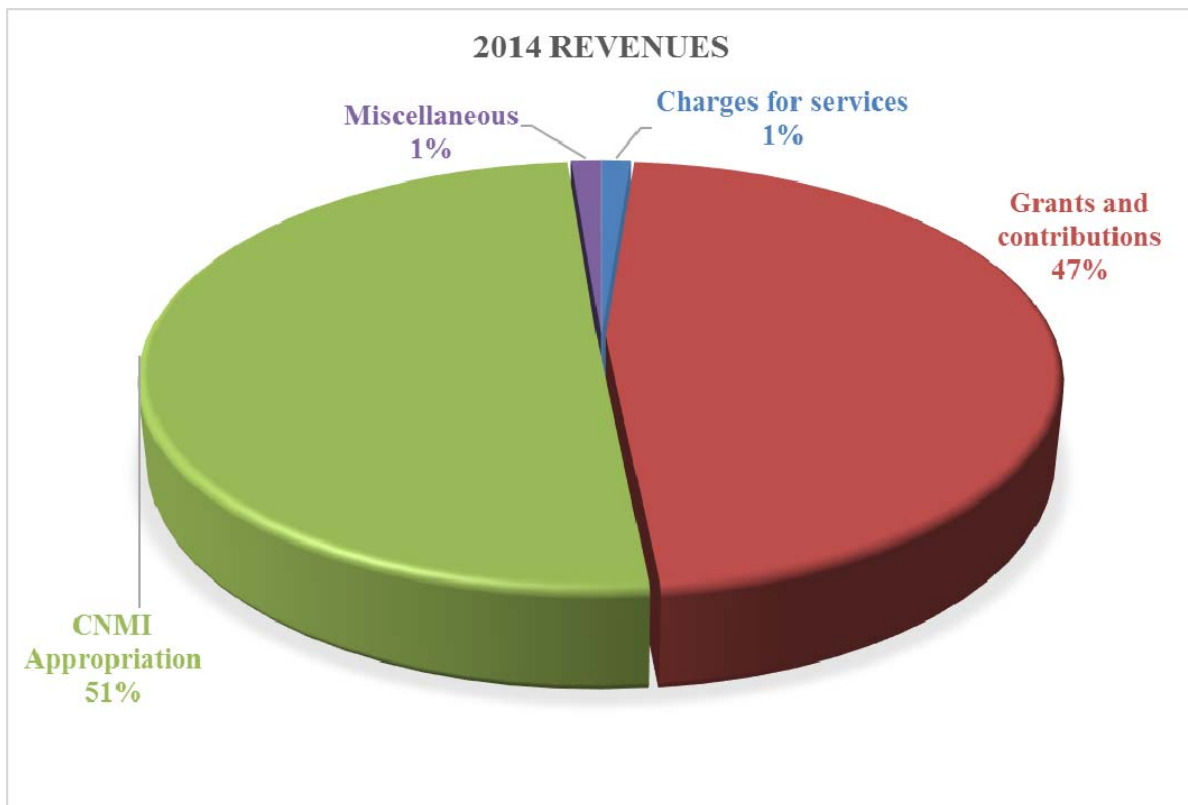
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Revenues are classified as either program or general.

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 revenues* classification includes appropriations, interest and other income not identifiable to specific activities.



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Expenses

Total district-wide expenses by function are as follows:

	2014	2013	Difference	% Change
Instruction:				
Regular	\$ 33,922,760	\$ 33,515,406	\$ 407,354	1%
Special	8,111,000	8,244,887	(133,887)	-2%
Co-curricular	3,850,116	3,606,553	243,563	7%
Student services	12,680,725	12,091,665	589,060	5%
Total instruction expenses	58,564,601	57,458,511	1,106,090	2%
Support services:				
General administration	1,714,023	1,458,537	255,486	18%
School administration	1,910,869	1,899,836	11,033	1%
Other support	1,075,456	609,089	466,367	77%
Maintenance	-	171,382	(171,382)	-100%
Individual programs	696,036	519,352	176,684	34%
Depreciation - unallocated	1,411,637	1,411,637	-	0%
Total Support services expenses	6,808,021	6,069,833	738,188	12%
Total expenses	\$ 65,372,622	\$ 63,528,344	\$ 1,844,278	3%
2013 vs 2012 Comparison:				
	2013	2012	Difference	% Change
Instruction:				
Regular	\$ 33,515,406	\$ 34,421,129	\$ (905,723)	-3%
Special	8,244,887	8,237,442	7,445	0%
Co-curricular	3,606,553	3,239,005	367,548	11%
Student services	12,091,665	12,549,121	(457,456)	-4%
Total instruction expenses	57,458,511	58,446,697	(988,186)	-2%
Support services:				
General administration	1,458,537	1,698,909	(240,372)	-14%
School administration	1,899,836	1,498,630	401,206	27%
Other support	609,089	5,005,337	(4,396,248)	-88%
Maintenance	171,382	3,282,651	(3,111,269)	-95%
Individual programs	519,352	427,230	92,122	22%
Depreciation - unallocated	1,411,637	2,084,283	(672,646)	-32%
Total Support services expenses	6,069,833	13,997,040	(7,927,207)	-57%
Total expenses	\$ 63,528,344	\$ 72,443,737	\$ (8,915,393)	-12%

Total expenses in 2014 increased by \$1,844,278 or 3% as compared to fiscal year 2013. The increase in fiscal year 2014 expenses is due to increase in expenditures authorized through the

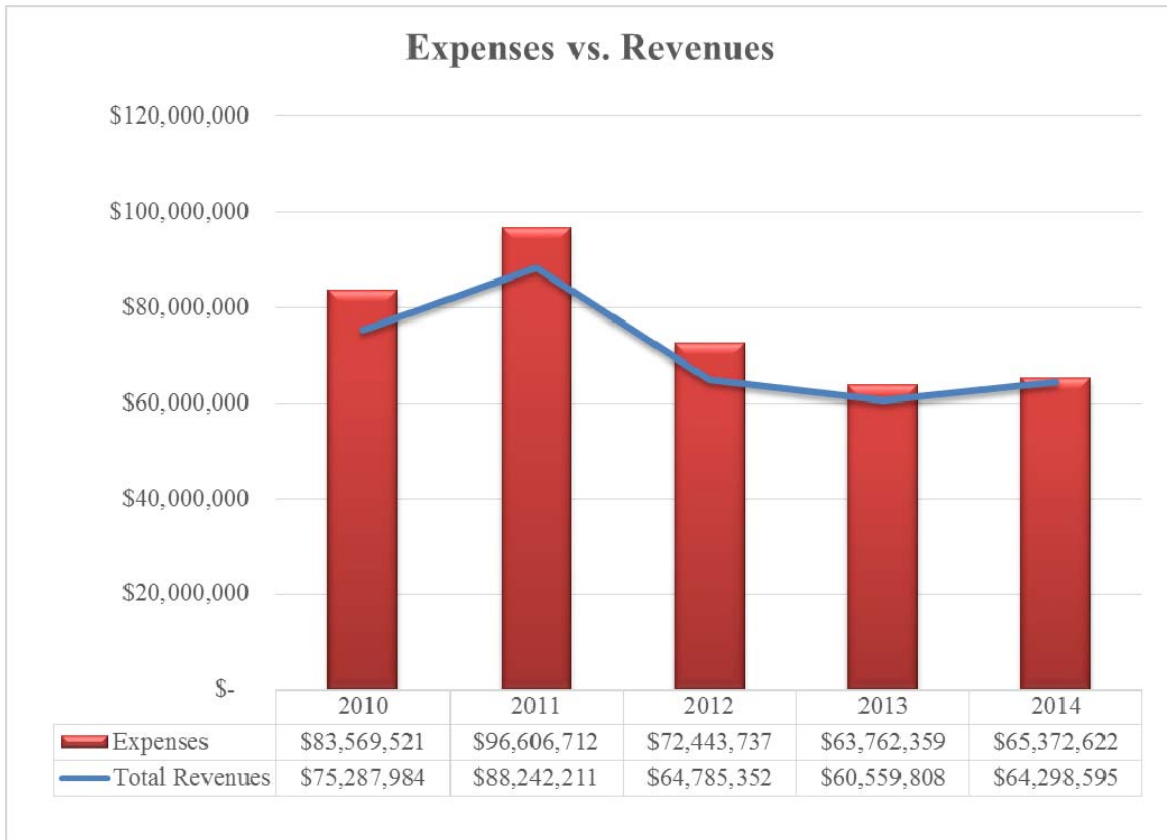
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federal funding for Consolidated Grants by \$1,181,546 and National School Lunch Program grant by \$707,155.

Total expenses in 2013 decreased by \$8,915,393 or 12% as compared to fiscal year 2012. The significant decrease in fiscal year 2013 is due to decrease in expenditures authorized through the federal funding.



The chart above shows the relationship of revenues and expenses for the past five years. Expenses exceeded revenues in all five years which contributed to PSS deficit of \$31,179,599 as of September 30, 2014. With the increase in CNMI appropriations, the gap between revenue and expenses narrows. PSS need revenues to exceed expenses to fund its current deficit.

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FUND ANALYSIS

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
Fund balance (Deficit), beginning of year	\$ (6,648,181)	\$ 984,199	\$ 629,258	\$ (5,034,724)
Fund balance (Deficit), end of year	<u>\$ (4,924,530)</u>	<u>984,199</u>	<u>599,123</u>	<u>(3,341,208)</u>
Change in fund balance (deficit)	<u>\$ 1,723,651</u>	<u>\$ -</u>	<u>\$ (30,135)</u>	<u>\$ 1,693,516</u>
Percentage change	-26%	0%	-5%	-34%

The General Fund deficit decreased by \$1,723,651. PSS was able to control spending within budget and for fiscal year 2014, PSS had residual funds to reduce its deficit.

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BUDGETARY ANALYSIS

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
Expenditures:					
Personnel	\$ -	\$28,090,753	\$ 28,090,753	\$ 27,738,643	\$ 352,110
All other	<u>32,362,721</u>	<u>(28,090,753)</u>	<u>4,271,968</u>	<u>4,120,431</u>	<u>151,537</u>
Total expenditures	<u>32,362,721</u>	<u>-</u>	<u>32,362,721</u>	<u>31,859,074</u>	<u>503,647</u>
Operating Transfers-In	<u>32,362,721</u>	<u>-</u>	<u>32,362,721</u>	<u>32,362,721</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 503,647</u>	<u>\$ 503,647</u>
Reconciliation of Budget to GAAP Basis					
2014 Budget					
Appropriations including Compact Impact funds and Commonwealth Worker Fund				\$ 32,362,721	
2014 Expenditures					
Actual (GAAP)			\$ 31,859,074		
Increase in compensated absences			<u>446,420</u>	<u>32,305,494</u>	
Favorable variance				<u>\$ 57,227</u>	

At initial glance, PSS' general fund appears to have been over-funded. However, after accrual of expenses, the favorable appropriation variance was reduced to \$ 57,227.

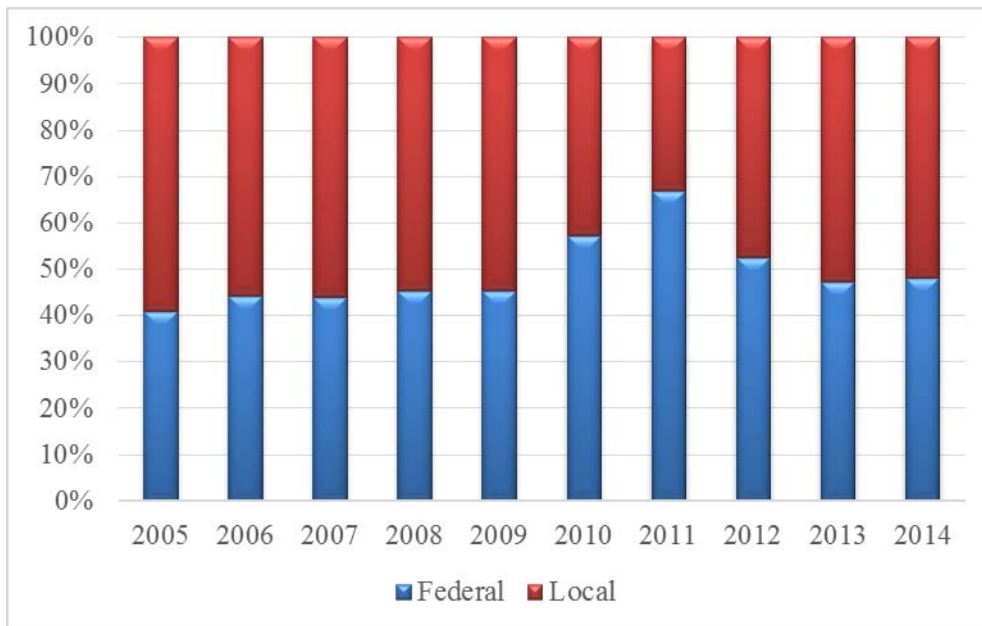
**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
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(A Component Unit of the CNMI Government)

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September 30, 2014

Federal and Local Budget Review

	Total	Federal		Local	
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%
2009	\$ 63,308,437	\$ 28,706,673	45%	\$ 34,601,764	55%
2010	\$ 72,908,603	\$ 41,688,947	57%	\$ 31,219,656	43%
2011	\$ 87,123,334	\$ 58,191,215	67%	\$ 28,932,119	33%
2012	\$ 62,399,197	\$ 32,779,735	53%	\$ 29,619,462	47%
2013	\$ 60,559,808	\$ 28,532,681	47%	\$ 32,027,127	53%
2014	\$ 62,991,869	\$ 30,319,671	48%	\$ 32,672,198	52%



The table and the chart above show the relationship between federal and local funding.

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

Management's Discussion and Analysis
September 30, 2014

CAPITAL ASSETS

PSS' investment in capital assets, net of accumulated depreciation, as of September 30, 2014, 2013 and 2012 were \$78,137,682, \$80,458,805 and \$81,033,173, respectively. Depreciation expense for the 2014, 2013 and 2012 was \$2,370,618, \$2,370,618 and \$2,084,283, respectively.

More detailed information on capital assets is on page 37 (Note 3) of the basic financial statements.

FUTURE PLANS AND ECONOMIC OUTLOOK

The under-allocation of resources for classroom teachers has persistently challenged the Public School System's capacity to bring the student-teacher ratio (class size) to manageable levels.

The growing number of student enrollment, the lack full-time equivalent positions and additional classrooms are linked to budget cuts—the result of plummeting local resources that have impacted funding for public education in the last decade.

Marianas High School knows first-hand that smaller class sizes benefits each student because there is more time for one-on-one learning. By the opening of school year 2014-2015, student-teacher ratio for the largest public high school in the CNMI shot up to 37:1 (students to teachers). This is the largest ratio in recent years. Last school year, the number hovered around 30:1 to 35:1.

In the 2014 election, House Legislative Initiative (H.L.I) 18-12, which increases the CNMI Public School System's 15 percent annual government appropriation by 10 percentage points, earned 7,826 "yes" votes and 3,958 "no" votes. The Public School System's annual government appropriation will now be increased to 25 percent because the majority of votes favored the budget increase.

The PSS is grateful for the vote of confidence from the electorate on H.L.I 18-12 and in believing that the CNMI should invest 25 percent of the CNMI revenue in education and for our children. PSS will work to continuously improve the school system and make it the best in the region.

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

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis
September 30, 2014

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:

Director of Finance
PO Box 501370
Saipan, MP 96950

<http://www.cnmipss.org/>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Statement of Net Position
September 30, 2014

Assets

Current assets:

Cash and cash equivalents	\$ 5,400,358
Receivables from the CNMI Government	6,909
Receivables from Federal agencies	2,459,382
Other receivables, net	<u>346,030</u>
Total current assets	<u>8,212,679</u>

Noncurrent assets:

Capital improvement projects in-progress	1,051,447
Capital assets, net	<u>78,137,682</u>
Total current assets	<u>79,189,129</u>

Total Assets 87,401,808

Liabilities

Current liabilities:

Bank overdraft	130
Accounts payable and accrued expenses	10,329,987
Compensated absences due in one year	<u>763,311</u>
Total current liabilities	<u>11,093,428</u>

Noncurrent liabilities:

Retirement contributions payable	23,767,066
Compensated absences	<u>2,220,325</u>
Total noncurrent liabilities	<u>25,987,391</u>

Total Liabilities 37,080,819

Deferred Inflows of Resources

Grants received 1,223,770

Net Position

Investment in:

Capital assets	78,137,682
Capital improvement projects in-progress	1,051,447
Restricted for special purpose	1,087,689
Deficit	<u>(31,179,599)</u>

Net Position \$ 49,097,219

See accompanying notes to basic financial statements.

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

(A Component Unit of the CNMI Government)

Statement of Activities
For the Year Ended September 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction:				
Regular	\$ 33,922,760	\$ 807,767	\$ 10,131,616	\$ (22,983,377)
Student services	12,680,725	-	10,982,708	(1,698,017)
Special education	8,111,000	-	6,218,042	(1,892,958)
Co-curricular	<u>3,850,116</u>	<u>-</u>	<u>1,916,281</u>	<u>(1,933,835)</u>
Total instruction	<u>58,564,601</u>	<u>807,767</u>	<u>29,248,647</u>	<u>(28,508,187)</u>
Support services:				
School administration	1,910,869	-	105,489	(1,805,380)
General administration	1,714,023	-	220,004	(1,494,019)
Other support	1,075,456	-	-	(1,075,456)
Individual programs	696,036	-	745,531	49,495
Depreciation - unallocated	<u>1,411,637</u>	<u>-</u>	<u>-</u>	<u>(1,411,637)</u>
Total support services	<u>6,808,021</u>	<u>-</u>	<u>1,071,024</u>	<u>(5,736,997)</u>
Total governmental activities	<u>\$ 65,372,622</u>	<u>\$ 807,767</u>	<u>\$ 30,319,671</u>	<u>(34,245,184)</u>
				32,362,721
				<u>808,436</u>
				<u>33,171,157</u>
				(1,074,027)
				<u>50,171,246</u>
				<u>\$ 49,097,219</u>

See accompanying notes to basic financial statements.

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

Balance Sheets
Governmental Funds
September 30, 2014

	General Fund	Federal Fund	Non-major Funds	Total
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 5,400,358	\$ -	\$ -	\$ 5,400,358
Receivables from CNMI	6,909	-	-	6,909
Receivables from Federal agencies	-	1,889,831	569,551	2,459,382
Other receivables	279,805	57,649	8,576	346,030
Due from other funds	<u>(1,707,256)</u>	<u>394,020</u>	<u>1,313,236</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 3,979,816</u>	<u>\$ 2,341,500</u>	<u>\$ 1,891,363</u>	<u>\$ 8,212,679</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
Liabilities:				
Bank overdraft	\$ 130	\$ -	\$ -	\$ 130
Accounts payable and accrued expenses	<u>8,904,216</u>	<u>1,243,405</u>	<u>182,366</u>	<u>10,329,987</u>
Total liabilities	<u>8,904,346</u>	<u>1,243,405</u>	<u>182,366</u>	<u>10,330,117</u>
Deferred Inflows of Resources:				
Grants received	<u>-</u>	<u>113,896</u>	<u>1,109,874</u>	<u>1,223,770</u>
Total deferred inflows of resources	<u>-</u>	<u>113,896</u>	<u>1,109,874</u>	<u>1,223,770</u>
Fund Balances:				
Restricted	8,904,346	1,357,301	1,292,240	11,553,887
Committed	-	-	1,238,278	1,238,278
Deficit	<u>(13,828,876)</u>	<u>(373,102)</u>	<u>(1,931,395)</u>	<u>(16,133,373)</u>
Total fund balances	<u>(4,924,530)</u>	<u>984,199</u>	<u>599,123</u>	<u>(3,341,208)</u>
Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,979,816</u>	<u>\$ 2,341,500</u>	<u>\$ 1,891,363</u>	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.				
Cost of capital assets			\$ 104,061,748	
Accumulated depreciation			<u>(25,924,066)</u>	78,137,682
Capital improvement projects				1,051,447
Accrual for unfunded retirement contribution				(23,767,066)
Long-term liabilities that are not due and payable in the current period and therefore are not reported as liabilities in the Funds.				
Compensated absences				<u>(2,983,636)</u>
Net position - governmental activities				<u>\$ 49,097,219</u>

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 Year Ended September 30, 2014

	General Fund	Federal Fund	Non-major Funds	Total
Revenues:				
Federal	\$ 720,004	\$ 28,833,916	\$ 765,751	\$ 30,319,671
Local	-	-	808,436	808,436
Charges for services	-	-	807,767	807,767
Total revenues	720,004	28,833,916	2,381,954	31,935,874
Expenditures:				
Instructional programs:				
Regular	21,243,928	9,631,616	339,021	31,214,565
Student services	1,049,895	10,982,708	38,125	12,070,728
Special	1,850,006	6,200,995	17,047	8,068,048
Co-curricular	1,907,007	1,167,577	748,696	3,823,280
Total instructional programs	26,050,836	27,982,896	1,142,889	55,176,621
Supporting services:				
Other	2,987,437	-	84,109	3,071,546
School administration	1,798,237	105,489	-	1,903,726
General administration	1,022,564	-	685,091	1,707,655
Individual programs	-	745,531	-	745,531
Total supporting services	5,808,238	851,020	769,200	7,428,458
Total expenditures	31,859,074	28,833,916	1,912,089	62,605,079
Excess (deficiency) of revenues over expenditures	(31,139,070)	-	469,865	(30,669,205)
Other Financing Sources:				
Operating transfers-in (out)	32,862,721	-	(500,000)	32,362,721
Total other financing sources	32,862,721	-	(500,000)	32,362,721
Excess of expenditures over revenues and other financing sources	1,723,651	-	(30,135)	1,693,516
Fund balance (deficit), beginning	(6,648,181)	984,199	629,258	(5,034,724)
Fund balance (deficit), ending	\$ (4,924,530)	\$ 984,199	\$ 599,123	\$ (3,341,208)

See accompanying notes to basic financial statements.

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

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance with the District-wide Statement of Activities
For the Year Ended September 30, 2014

Total net change in fund balances - governmental funds		\$	1,693,516
Amounts reported for governmental activities in the statements of activities is different because of:			
Change in compensated absences			(446,420)
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.			
Capital outlays		\$	49,495
Depreciation expense		<u>(2,370,618)</u>	<u>(2,321,123)</u>
			<u>\$ (1,074,027)</u>

See accompanying notes to basic financial statements.

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

(A Component Unit of the CNMI Government)

Statement of Revenues, Expenditures
and Changes in Fund Balance - Budget and Actual
Budget and Actual (GAAP Basis) - General Fund
For the Year Ended September 30, 2014

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
Expenditures:					
Personnel	\$ -	\$ 28,090,753	\$ 28,090,753	\$ 27,738,643	\$ 352,110
All other	<u>32,362,721</u>	<u>(28,090,753)</u>	<u>4,271,968</u>	<u>4,120,431</u>	<u>151,537</u>
Total expenditures	<u>32,362,721</u>	<u>-</u>	<u>32,362,721</u>	<u>31,859,074</u>	<u>503,647</u>
Operating Transfers-In	<u>32,362,721</u>	<u>-</u>	<u>32,362,721</u>	<u>32,362,721</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 503,647</u>	<u>\$ 503,647</u>
Reconciliation of Budget to GAAP Basis					
2014 Budget					
Appropriations including Compact Impact funds and Commonwealth Worker Fund				\$ 32,362,721	
2014 Expenditures					
Actual (GAAP)			\$ 31,859,074		
Increase in compensated absences			<u>446,420</u>	<u>32,305,494</u>	
Favorable variance				<u>\$ 57,227</u>	

See accompanying notes to basic financial statements.

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

Notes to the Basic Financial Statements
September 30, 2014

(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 (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. GAAP for state and local governments through its pronouncements (Statements and Interpretations).

A. Reporting Entity

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

B. Basis of Presentation

District-wide Statements: The Statement of Net Position and Statement of Activities present information about PSS. These Statements include the overall financial activities of the school system. PSS operates only 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, 2014

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

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

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

PSS reports the following major governmental funds:

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

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

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

Specific revenues earmarked to finance particular programs and activities of the Public School System are accounted for in Non-major Funds. A summary of PSS' Non-major Funds as of September 30, 2014 follows:

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

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

Notes to the Basic Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

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

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

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

C. Measurement Focus and Basis of Accounting

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

District-wide Fund Financial Statements

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

Government Fund Financial Statements

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

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

Notes to the Basic Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

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

Expenditures for claims, judgments, compensated absences and employer retirement contributions are reported 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.

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

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

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

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

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

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

Notes to the Basic Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

The amounts reported as committed as of September 30, 2014 pertain to with the appropriated funds restricted by Public Law No. 16-10 available at the closure of the Indenture Trust Agreement to fund critical classroom repairs, renovations and paving of public school parking areas. The Commissioner of Education has the spending authority.

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

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

D. Budgetary Data

PSS has no authority to impose taxes to generate revenue. PSS is a dependent school district, as revenue and expenditure authorizations come from the CNMI Legislature. The CNMI Legislative budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted by the CNMI Legislature for PSS through an Annual Appropriations Act. Budgets for non-major funds are not included in the Annual Appropriation Act. Budgets for these funds are based upon grant awards received (and are thus non-appropriated). Project-length financial plans are adopted for all capital project funds. Pursuant to the approved policies and regulations of the Public School System, Policy 3100 outlines PSS' general budgetary procedures. A summary of the key budgetary steps and data reflected in the financial statements are as follows:

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

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

Notes to the Basic Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities and Position

1. Cash and Cash Equivalents

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

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

2. Capital Assets

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

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

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

3. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as a non-current liability. The liability as of September 30, 2014 was \$2,983,636. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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

Notes to the Basic Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

3. Compensated Absences, Continued

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

4. Revenues

Revenues are classified as either program or general.

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

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

5. Net Position/Fund Balances

Net position in the district-wide financial statements are classified as investment in capital assets; investment in capital improvement projects in progress; restricted and unrestricted. Restricted net position 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 appropriated, are legally segregated for a specific purpose, or are restricted by a grant agreement. Designations of fund balance represent tentative management plans that are subject to change.

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

Notes to the Basic Financial Statements
September 30, 2014

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

6. Inter-fund Balances

The inter-fund balances as of September 30, 2014 pertains to unreimbursed advances between the general fund and the other funds.

PSS uses its general fund for all of its disbursements and records due from other funds in the general fund and due to other funds in the funds whose expenses the payments were made.

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

F. New Accounting Standards

Recent Pronouncements

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial report of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of this Statement on the financial statements of PSS.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations.

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(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

Recent Pronouncements, Continued

The provisions of Statement 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Early application is encouraged. Management has not yet determined the effect of implementation of this Statement on the financial statements of PSS.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring consistent reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees. This Statement also will enhance the information disclosed about a government's obligations and risk exposure from extending nonexchange financial guarantees. This Statement also will augment the ability of financial statement users to assess the probability that governments will repay obligation holders by requiring disclosures about obligations that are issued with this type of financial guarantee. The provisions of Statement 70 are effective for financial statements for reporting beginning after June 15, 2013. Earlier application is encouraged. Management has not yet determined the effect of implementation of this statement on the financial statements of PSS.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to The Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. Management has not yet determined the effect of implementation of this Statement on the financial statements of PSS.

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(1) Summary of Significant Accounting Policies, Continued

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.

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

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. The net adjustments for 2014 consist of several elements as follows:

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

Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds:	
Total capital assets on district-wide financial statements in governmental activities column	\$ 104,061,748
Accumulated depreciation	<u>(25,924,066)</u>
Net capital assets	78,137,682
Capital improvement projects	1,051,447
Accrual for unfunded retirement contribution	(23,767,066)
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Compensated absences	<u>(2,983,636)</u>
Total adjustments	<u>\$ 52,438,427</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 position of governmental activities as reported in the district-wide statement of activities. The total adjustments for 2014 pertain to the following:

Change in compensated absences	\$ (446,420)
Capital outlay expenditures recorded in the Statement of Activities	49,495
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>(2,370,618)</u>
Total adjustments	<u>\$ (2,767,543)</u>

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(3) Detail Notes on all Funds

Cash and Cash Equivalents

For purposes of the Statement of Net Position, cash is defined as amounts in demand deposits as well as short-term investments with a maturity date within three months from the date acquired. As of September 30, 2014, aggregate carrying amounts deposited with the Federal Deposit Insurance Corporation (FDIC) insured banks totaled \$6,876,689. From these deposits, \$500,000 is subject to coverage by FDIC, \$101,277 is deposited in a financial institution not subject to FDIC coverage with the remaining balance exceeding insurable limits. PSS requires collateralization of bank accounts, and the amounts in excess of insurable limits are collateralized by securities owned by the banks. PSS has not experienced any losses on these deposits.

Accounts Receivable

Accounts receivable are amounts due primarily from the CNMI Government and from Federal grantor agencies for appropriations and grants, respectively.

Other Receivables

Other receivables as of September 30, 2014 consists of the following:

Travel advances	\$ 301,861
Advances to vendors	255,413
Others	<u>66,714</u>
Total other receivables	623,988
Allowance	<u>(277,958)</u>
Other receivables, net	<u>\$ 346,030</u>

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

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(3) Detail Notes on all Funds, Continued

Capital Assets

Capital asset activity for the year ended September 30, 2014 were as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirement</u>	<u>Ending</u>
Capital assets not being depreciated:				
Land	\$ 36,647,850	\$ -	\$ -	\$ 36,647,850
Capital assets being depreciated:				
Building and improvements	58,627,592	-	-	58,627,592
Vehicles	5,945,629	49,495	-	5,995,124
Others	<u>2,791,182</u>	<u>-</u>	<u>-</u>	<u>2,791,182</u>
Total	<u>67,364,403</u>	<u>49,495</u>	<u>-</u>	<u>67,413,898</u>
Less accumulated depreciation:				
Building and improvements	16,267,956	1,411,637	-	17,679,593
Vehicles	4,922,689	731,943	-	5,654,632
Others	<u>2,362,803</u>	<u>227,038</u>	<u>-</u>	<u>2,589,841</u>
Total	<u>23,553,448</u>	<u>2,370,618</u>	<u>-</u>	<u>25,924,066</u>
Capital assets being depreciated, net	<u>43,810,955</u>	<u>(2,321,123)</u>	<u>-</u>	<u>41,489,832</u>
Capital assets, net	<u>\$ 80,458,805</u>	<u>\$ (2,321,123)</u>	<u>\$ -</u>	<u>\$ 78,137,682</u>

Capital Improvements Projects in Progress and Related Commitments

Construction in progress and related commitments for the year ended September 30, 2014 are as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Transfer</u>	<u>Ending</u>
Construction in progress	\$ 1,051,447	\$ -	\$ -	\$ 1,051,447
	<u>In-progress</u>	<u>Construction Commitment</u>		
PSS Facilities	<u>\$ 1,051,477</u>	<u>\$ 21,039</u>		

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.

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(3) Detail Notes on all Funds, Continued

Retirement Plan

PSS contributes to the Northern Mariana Islands Retirement Fund's (the Fund) defined benefit plan (DB Plan) and defined contribution plan (DC Plan), a cost sharing, and multi-employer plan (the Plan) established and administered by the Fund. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

Public Law 17-82, which was signed in September 11, 2012, provided that Class I or Class II member of the DB Plan, active or inactive may elect to voluntarily terminate membership in the Fund.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. Except as described in the paragraphs below, PSS has complied with GASB Statement No. 45 by recording OPEB expense based on the statutorily determined contribution rate of the Fund. It is the understanding of the management of PSS that the statutorily determined contribution rate of the Fund incorporates both the pension liability and OPEB liability. GASB Statement No. 45 also requires detailed disclosure of information related to the OPEB plan and the management of PSS was unable to obtain this information from the Fund financial report. The management of PSS is unable to obtain the required disclosures and is of the opinion that such information must be obtained from the Fund. It is the position of the management of PSS that the Fund is solely responsible for disclosure of OPEB information.

Defined Benefit Plan (DB Plan)

The DB Plan provides retirement, disability, security and other benefits to employees of the CNMI Government and CNMI agencies, instrumentalities and public corporations and their spouses and dependents. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund (NMIRF) Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19, 11-9, 11-95, 13-60, 15-14, 15-70, 15-126, 16-2, 16-36, 17-82 and 18-02.

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(3) Detail Notes on all Funds, Continued

Retirement Plan, Continued

Defined Benefit Plan (DB Plan), Continued

DB Plan members are required to contribute 10.5% and 11% of their annual covered salary for Class I and Class II members, respectively. The actuarially determined contribution rate for the fiscal year ended September 30, 2010 is 72.7215% of covered payroll based on an actuarial valuation as of October 1, 2010 issued in October 2012. The established statutory rate at September 30, 2014 is 72.7215% of covered payroll.

PSS' contribution to the Fund is at accrued 30% of covered payroll. This is based on a Court Order, requiring the CNMI government and its autonomous agencies to remit contributions to the Fund.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. PSS is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. The DC Plan by its nature is fully funded on a current basis from employer and member contributions. Members of the DC Plan, who have completed five years of government service, have a vested balance of 100% of both member and employer contribution plus any earnings thereon. With the passage of Public Law 17-82 in September 11, 2013, the membership to the DC Plan became voluntary.

Settlement Fund

On September 30, 2013, the U.S District Court approved the Final Settlement Agreement for Case No. 09-000023, creating the Settlement Fund. Active members of the Retirement Fund who did not exercise the option to be excluded from the Settlement Fund became members of the Settlement Fund. Beginning fiscal year 2014, contributions for active members of the Fund are remitted to the Settlement Fund.

PSS' aggregate contributions to the Retirement Fund for the years ended September 30, 2014, 2013 and 2012 were \$591,570, \$2,520,886 and \$2,358,633, respectively.

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(3) Detail Notes on all Funds, Continued

Retirement Plan, Continued

The amount PSS recognized as payable to the Retirement fund prior to the creation of the Settlement Fund totaled \$23,767,066 as of September 30, 2014. However, the amount due from PSS based on the actuarially determined rate including interest amounted to \$39,854,170. Pursuant to the Court Order, PSS only recognized a liability based on the percentage the Court ordered PSS to remit to the Fund. PSS believes that the difference of \$16,087,104, as well as the \$23,767,066, is ultimately due from the CNMI central government and not from PSS.

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. Life insurance coverage is to be provided by a private carrier. Contributions from employees and employers are based on rates as determined by NMIRF Board of Trustees. Employee deductions are made through payroll withholdings.

Federal Grants

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

Related Party Transactions

The CNMI Government appropriated \$32,362,721 for PSS’ operational use for the fiscal year ended September 30, 2014.

At September 30, 2014, amounts payable for utilities expense to the Commonwealth Utilities Corporation (CUC) which is included in accounts payable and accrued expenses in the accompanying Statement of Net Position amounted to \$4,779,088, excluding penalties approximately \$1 million. During the year ended September 30, 2014, total utilities expense to CUC amounted to \$2,063,518.

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September 30, 2014

(3) Detail Notes on all Funds, Continued

Non-current Liabilities

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

	<u>Balance</u> <u>9/30/13</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>9/30/14</u>	<u>Due in</u> <u>1 Year</u>	<u>Noncurrent</u>
Retirement contribution payable	<u>\$ 23,767,066</u>	<u>\$ 591,570</u>	<u>\$ (591,570)</u>	<u>\$ 23,767,066</u>	<u>\$ -</u>	<u>\$ 23,767,066</u>
Compensated absences	<u>\$ 2,537,216</u>	<u>\$ 1,209,731</u>	<u>\$ (763,311)</u>	<u>\$ 2,983,636</u>	<u>\$ 763,311</u>	<u>\$ 2,220,325</u>

PSS uses its general funds to liquidate its accrued compensated absences and to pay for prior year retirement contributions of retiring employees. Management is unable to determine the current portion of the retirement contributions payable since payments are only requested from CNMI Treasurer upon actual retirement.

(4) Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. PSS does not have any deferred outflows of resources as of September 30, 2014.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. As of September 30, 2014, PSS only has one type of deferred inflows of resources arising from grants received with restrictions.

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September 30, 2014

(5) Contingencies

CNMI Contributions

A substantial amount of PSS' funding is provided by appropriations from the CNMI Government. PSS is guaranteed an annual budget of not less than fifteen percent (15%) of general revenues of the CNMI Government. The future of PSS is contingent on its ability to continue to obtain CNMI appropriations.

Financial and Compliance Audits

PSS administers significant financial assistance from the U.S. Federal Government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including expenditure of resources for eligible purposes. Substantially, all grants are subject to either the 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. Questioned costs as of September 30, 2014 totaled \$76,584. No liability, which may arise from the ultimate outcome of this matter, has been provided for in the accompanying financial statements as this was subsequently closed in January 30, 2015, pursuant to the Order of Dismissal received from the United States Department of Education, Office of Administrative Law Judges.

Lawsuits and Claims

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

On July 26, 2012, the CNMI Department of Finance, Division of Revenue and Taxation issued a Final Notice of Intent to Levy and Notice of Right to a Hearing to PSS related to its unpaid withholding taxes for the calendar year ended December 31, 2011. The total unpaid withholding taxes were subsequently paid; however, PSS did not recognize any liability for the assessed penalties and interest amounting to approximately \$1.3 million.

Also, PSS did not recognize as liability the assessed late payment penalty from CUC approximating \$1 million as of September 30, 2014.

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(5) Contingencies, Continued

Sick Leave

It is the policy of PSS to record expenditures for sick leave when the leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2014 is approximately \$5 million.

(6) Commitments

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, \$2,629,453 of outstanding purchase orders and purchase commitments are not reported in the financial statements as of September 30, 2014.

(7) Risk Management

The CNMI government is a self-insured entity. The CNMI government has limited its general liability to individuals to \$100,000 by statute. For this reason, the CNMI government does not maintain any insurance on its buildings, or on its employees. At some future date, PSS may insure some of its assets, as an autonomous agency, it is not required to follow the CNMI Government's self-insurance policy. PSS has not experienced any losses for the year ended September 30, 2014.

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

(8) Economic Dependency

PSS receives a substantial amount of its support from Federal and local governments. For the fiscal year ending September 30, 2014, 51% and 47% of total revenues were received from local appropriations and federal grants, respectively. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on PSS' programs and activities.

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(9) Fair Value of Financial Instruments

PSS financial instruments 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.

(10) Subsequent Events

PSS has evaluated subsequent events from October 1, 2014 through March 31, 2015, the date of financial statements were available to be issued. PSS did not note any subsequent events requiring disclosure or adjustment to the accompanying financial statements.

PUBLIC SCHOOL SYSTEM

SUPPLEMENTAL INFORMATION

Year Ended September 30, 2014

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Combining Balance Sheets
Non-major Funds
For the Year Ended September 30, 2014

	Local CIP Fund ⁽¹⁾	ARRA Fund (25000)	GOB Fund (30000)	Indirect Cost Fund (40000)	Donation and Other Revenue Fund (42000)	Other Federal Fund (60000)	JROTC Army Fund (65000)	Federal Program Income Fund (66000)	Total Non-major Funds
<u>Assets:</u>									
Current Assets:									
Receivable from Federal Agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 144,419	\$ 398,234	\$ 26,898	\$ 569,551
Other receivables	8,576	-	-	-	-	-	-	-	8,576
Due from (to) other funds	<u>267,377</u>	<u>400,513</u>	<u>1,238,278</u>	<u>(1,239,106)</u>	<u>383,226</u>	<u>13,345</u>	<u>483,351</u>	<u>(233,748)</u>	<u>1,313,236</u>
Total assets	<u>275,953</u>	<u>400,513</u>	<u>1,238,278</u>	<u>(1,239,106)</u>	<u>383,226</u>	<u>157,764</u>	<u>881,585</u>	<u>(206,850)</u>	<u>1,891,363</u>
<u>Liabilities, Deferred Inflows and Fund Balances</u>									
Liabilities:									
Accounts payable and accrued expenses	<u>2,835</u>	<u>-</u>	<u>150,588</u>	<u>2,286</u>	<u>9,161</u>	<u>-</u>	<u>17,488</u>	<u>8</u>	<u>182,366</u>
Deferred Inflows of Resources:									
Grants received	<u>-</u>	<u>-</u>	<u>-</u>	<u>119,402</u>	<u>-</u>	<u>-</u>	<u>903,618</u>	<u>86,854</u>	<u>1,109,874</u>
Fund Balances:									
Restricted	2,835	-	150,588	121,688	9,161	-	921,106	86,862	1,292,240
Committed	-	-	1,238,278	-	-	-	-	-	1,238,278
Unassigned (deficit)	<u>270,283</u>	<u>400,513</u>	<u>(301,176)</u>	<u>(1,482,482)</u>	<u>364,904</u>	<u>157,764</u>	<u>(960,627)</u>	<u>(380,574)</u>	<u>(1,931,395)</u>
Total fund balances	<u>\$ 273,118</u>	<u>\$ 400,513</u>	<u>\$ 1,087,690</u>	<u>\$ (1,360,794)</u>	<u>\$ 374,065</u>	<u>\$ 157,764</u>	<u>\$ (39,521)</u>	<u>\$ (293,712)</u>	<u>\$ 599,123</u>

⁽¹⁾ Fund codes 17000, 18000 and 19000

See accompanying notes to basic financial statements.

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Combining Statements of Revenues, Expenditures, and Changes in Fund Balance
Non-major Funds
For the Year Ended September 30, 2014

	Local CIP Fund ⁽¹⁾	ARRA Fund (25000)	GOB Fund (30000)	Indirect Cost Fund (40000)	Other Revenue Fund (42000)	Federal Fund (60000)	Army Fund (65000)	Program Income Fund (66000)	Total Non-major Funds
Revenues:									
Federal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 163,325	\$ 585,379	\$ 17,047	\$ 765,751
Local	9,058	-	-	-	799,378	-	-	-	808,436
Charges for services	-	-	-	768,278	-	-	-	39,489	807,767
Total revenues	<u>9,058</u>	<u>-</u>	<u>-</u>	<u>768,278</u>	<u>799,378</u>	<u>163,325</u>	<u>585,379</u>	<u>56,536</u>	<u>2,381,954</u>
Expenditures:									
Instructional programs:									
Regular	-	-	-	-	339,021	-	-	-	339,021
Special	-	-	-	-	-	-	-	17,047	17,047
Co-curricular	-	-	-	-	-	163,323	585,373	-	748,696
Student services	-	-	-	-	-	-	-	38,125	38,125
Total instructional programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>339,021</u>	<u>163,323</u>	<u>585,373</u>	<u>55,172</u>	<u>1,142,889</u>
Supporting services:									
General administration	21,926	-	-	663,165	-	-	-	-	685,091
Other	74,109	-	-	-	10,000	-	-	-	84,109
Total supporting services	<u>96,035</u>	<u>-</u>	<u>-</u>	<u>663,165</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>769,200</u>
Total Expenditures	<u>96,035</u>	<u>-</u>	<u>-</u>	<u>663,165</u>	<u>349,021</u>	<u>163,323</u>	<u>585,373</u>	<u>55,172</u>	<u>1,912,089</u>
Excess	(86,977)	-	-	105,113	450,357	2	6	1,364	469,865
Operating Transfers	-	-	-	-	(500,000)	-	-	-	(500,000)
Fund balance (deficit), beginning of year	<u>360,095</u>	<u>400,513</u>	<u>1,087,690</u>	<u>(1,465,907)</u>	<u>423,708</u>	<u>157,762</u>	<u>(39,527)</u>	<u>(295,076)</u>	<u>629,258</u>
Fund balance (deficit), end of year	<u>\$ 273,118</u>	<u>\$ 400,513</u>	<u>\$ 1,087,690</u>	<u>\$ (1,360,794)</u>	<u>\$ 374,065</u>	<u>\$ 157,764</u>	<u>\$ (39,521)</u>	<u>\$ (293,712)</u>	<u>\$ 599,123</u>

⁽¹⁾ Fund codes 17000, 18000 and 19000

See accompanying notes to basic financial statements.

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

Schedule of Expenditures/Expense (By Natural Classification)
Year Ended September 30, 2014

	General Fund	Federal Fund	Non-Major Funds	Total Expenditures	Conversion	Total Expenses
Salaries and wages	\$ 24,098,634	\$ 6,704,395	\$ 643,626	\$ 31,446,655	\$ 446,420	\$ 31,893,075
Professional services	239,865	13,017,165	68,481	13,325,511	-	13,325,511
Employee benefits	3,640,009	883,290	104,726	4,628,025	-	4,628,025
Books and instruction materials	4,513	3,358,974	43,506	3,406,993	-	3,406,993
Depreciation	-	-	-	-	2,370,618	2,370,618
Utilities	2,024,917	38,165	19,006	2,082,088	-	2,082,088
Travel	90,084	1,361,884	524,231	1,976,199	-	1,976,199
Rental	89,349	911,975	42,801	1,044,125	-	1,044,125
Supplies and materials	100,809	846,873	85,417	1,033,099	-	1,033,099
Indirect Costs	-	869,155	18,525	887,680	-	887,680
Repairs and maintenance	209,253	118,099	109,705	437,057	-	437,057
Printing and photocopying	188,432	196,726	8,393	393,551	-	393,551
Communications	223,374	92,183	12,963	328,520	-	328,520
Fuel and lubrications	244,080	54,607	12,329	311,016	-	311,016
Security services	251,132	9,508	36,715	297,355	-	297,355
Cleaning Services	180,460	29,140	29,416	239,016	-	239,016
Dues and subscriptions	23,193	103,898	9,739	136,830	-	136,830
Judgements	131,849	-	-	131,849	-	131,849
Advertising	16,362	76,669	7,876	100,907	-	100,907
Controlled Assets	33,528	37,243	20,111	90,882	-	90,882
Miscellaneous	10,385	-	63,314	73,699	-	73,699
Food Items	30,667	10,047	13,502	54,216	-	54,216
Licenses and fees	9,126	35,933	4,870	49,929	-	49,929
Recruitment and repatriation	3,607	25,740	10,312	39,659	-	39,659
Freight and handling	4,331	2,752	16,255	23,338	-	23,338
Software	6,270	-	6,270	12,540	-	12,540
Bank charges	4,845	-	-	4,845	-	4,845
Vehicles	-	49,495	-	49,495	(49,495)	-
Total expenditures (page 22)	\$ 31,859,074	\$ 28,833,916	\$ 1,912,089	\$ 62,605,079	Total expenses (page 20)	\$ 65,372,622

See accompanying notes to basic financial statements.

PUBLIC SCHOOL SYSTEM

**REPORTS ON INTERNAL CONTROL
AND COMPLIANCE**

Year Ended September 30, 2014

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands Public School System as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements and have issued my report thereon dated March 31, 2015.

Internal Control over Financial Reporting

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

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

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

deficiencies in internal control that we consider to be significant deficiencies, described in the accompanying schedule of findings and questioned costs as Findings 2014-001 through 2014-005.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether PSS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2014-001.

PSS' Response to Findings

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

Purpose of this Report

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


Saipan, Commonwealth of the Northern Mariana Islands
March 31, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of the Northern Mariana Islands Public School System's (PSS) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of PSS' major federal programs for the year ended September 30, 2014. PSS' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of PSS' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PSS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Commonwealth of the Northern Mariana Islands Public School System, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item:

<u>Finding #</u>	<u>CFDA #</u>	<u>Program (or Cluster) Name</u>	<u>Compliance Requirement</u>
2014-006	84.256	Territories and Freely Associated States Education Grant Program	Procurement

Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control over Compliance

Management of PSS, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered PSS internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PSS' internal control over compliance.

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

a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.


Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be significant deficiencies, described in the accompanying schedule of findings and questioned costs as Findings 2014-007 and 2014-008

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of PSS, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements. We issued our report thereon dated March 31, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Saipan, Commonwealth of the Northern Mariana Islands
March 31, 2015

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

Federal Grantor/Program Title	CFDA Number	Expenditures
<u>U.S. Department of Agriculture</u>		
Direct Program:		
National School Lunch Program	10.555	\$ 10,822,517
Total U.S. Department of Agriculture		<u>10,822,517</u>
<u>U.S. Department of Commerce</u>		
Direct Program:		
Public Telecommunications Facilities Planning and Construction	11.550	105,489
Total U.S. Department of Commerce		<u>105,489</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Army JROTC	12.Unknown	585,379
Total U.S. Department of Defense		<u>585,379</u>
<u>U.S. Department of Education</u>		
Direct Program:		
Consolidated Grants to the Outlying Areas	84.403	9,626,828
Special Education - Grants to States (IDEA, Part B) Territories and Freely Associated States Education Grant Program	84.027	4,076,172
Special Education - Grants for Infants and Families Striving Readers	84.256	1,094,507
Common Core	84.181	445,632
	84.371	73,070
	84.unknown	4,776
Total U.S. Department of Education		<u>15,320,985</u>
<u>U.S. Department of Transportation</u>		
Direct Program:		
Formula Grants for Other Than Urbanized Areas	20.509	177,242
Total U.S. Department of Transportation		<u>177,242</u>
Sub-total carried forward		<u>\$ 27,011,612</u>

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

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

Federal Grantor/Program Title	CFDA Number	Expenditures
Sub-total brought forward		\$ 27,011,612
<u>U.S. Department of Health and Human Services</u>		
Direct Programs:		
Head Start	93.600	1,679,197
Personality Responsibility Education	93.092	293,230
Project Traditional Technology	93.612	159,570
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	13,382
Sub-total Direct Programs		2,145,379
Pass-Through the Government of the CNMI:		
Child Care	93.575	163,325
Total U.S. Department of Health and Human Services		2,308,704
<u>Corporation for National and Community Service</u>		
Direct Program:		
AmeriCorps	94.006	279,351
Total Corporation for National and Community Service		279,351
<u>U.S. Department of the Interior</u>		
Passed-through the CNMI Government		
Compact impact	15.875	220,004
Total U.S. Department of the Interior		220,004
<u>U.S. Department of Homeland Security</u>		
Passed-through the CNMI Government		
Commonwealth Worker Fund	97.unknown	500,000
Total U.S. Department of Homeland Security		500,000
Total expenditures		\$ 30,319,671

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

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

Federal Grantor/Program Title	CFDA Number	Expenditures
Reconciliation:		
Expenditures Federal Fund		\$ 28,833,916
Expenditures included in nonmajor funds		765,751
Expenditures included in General Fund		<u>720,004</u>
Total expenditures		<u>\$ 30,319,671</u>

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

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

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

(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 Interior for fiscal year 2014. The approved rates are as follows:

Unrestricted	3.27%
Restricted rate	2.40%

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

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance: Unmodified

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

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION I – SUMMARY OF AUDITOR’S RESULTS, Continued

Federal Awards

Identification of major programs:

<u>CFDA Number</u>	<u>Description</u>	<u>Federal Expenditures</u>
10.555	National School Lunch Program	\$ 10,822,517
84.403	Consolidated Grant to the Outlying Areas	9,626,828
84.027	Special Education Grants to States	4,076,172
93.600	Head Start	1,679,197
84.256	Territories and Freely Associated States Education Grant Program	<u>1,094,507</u>
Total Federal Expenditures-Major Programs		<u>\$ 27,299,221</u>
Percentage of total awards tested		90%

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

\$ 909,590
3% of the total awards expended

Auditee qualified as low-risk auditee

yes no

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2014-001, Use of Restricted Cash

Criteria:

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 were 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 is recorded by the CNMI Government. In August 2008, Public Law No. 16-10 appropriated funds available at the closure of the Indenture Trust Agreement to fund critical classroom repairs, renovations and the paving of school parking areas at public schools with the Commissioner of Education as expenditure authority.

Condition:

PSS accounts for bond proceeds in the Capital Projects Fund (Fund 30000). At September 30, 2014, adjusted net position of Fund 30000 amounted to \$1,087,689 and accounts payable balance of \$150,589. Fund 30000's cash is held in the restricted bank account recorded in the General Fund. There were no cash remaining in the restricted account balance as of September 30, 2014. PSS properly recorded the interfund receivable of \$1,238,278 as of September 30, 2014; however, no repayment have been recorded since the funds were drawn in 2010 and 2011.

Cause:

Due to financial difficulties, PSS used the restricted funds for expenditures not allowed by Public Law No. 16-10.

Effect:

PSS is noncompliance with Public Law 16-10.

Recommendation:

PSS should return the restricted funds used for expenditures not allowed under Public Law 16-10 and ensure that future disbursements from this account comply with its restrictions.

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2014-001, Use of Restricted Cash, continued

Auditee Response:

Contact Person - Mr. George Palican, Internal Auditor
Completion Date – March 2015

On March 12, 2015, the Chairman of the Board of Education, the Commissioner of Education and PSS Director of Finance signed General Obligation Bond Resolution No. 2015-003, whereas it is resolved and agreed that PSS, the Board of Education and the Commissioner of Education, through the Director of Finance shall return the amounts owed by the General Fund from the General Obligation Bond Fund based on agreed schedule of payments.

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2014-002, Travel Advances

Criteria:

Travel advances and liquidation should be pursuant to PSS Travel and Commuting Regulations.

Furthermore, the design or operation of a control should allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Conditions:

The following were noted during the test of PSS compliance with the travel and commuting policies:

- A. PSS commuting policy is silent as to:
 - who is authorized to approve the Commute forms.
 - the Commute forms submission deadline and required supporting documents.

- B. PSS commuting policy states that all official commutes shall be initiated and authorized with an approved Commute Form. We noted that the official Commute Form has no form date. Furthermore, the approvers usually do not put dates beside their signatures. The absence of these dates makes it difficult to validate whether the actual travel really happened after the approval. Current practice makes it possible to fill out the commute form after the fact.

- C. PSS policy on commute states that per diem rates cover all traveler expenses except airline transportation. However, we noted that during travel advances liquidation, gas purchase receipts are reimbursed when the traveler is allowed car rental.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2014-002, Travel Advances, continued

Cause:

Internal control weakness in the design of the PSS commuting policy.

Effect:

The weakness in the design of the internal control over commuting provides opportunity for abuse and misuse of the commuting expenses. Furthermore, fraud and abuse might exist and not be detected on a timely manner.

Recommendation:

PSS should review its Commuting policy to ensure that it is effectively designed and implemented.

Auditee Response:

Contact Persons - Mr. Derek Sasamoto, Director of Finance
Completion Date - January 12, 2015

- A. Although PSS' policy is silent, the authorization to approve travel within the CNMI lies with the Commissioner of Education as she has the expenditure authority over PSS funds. It has been PSS practice to have the Director of Finance and the Federal Officer certify the funding availability for local and federal funds, respectively before the Commissioner approves the request.

Furthermore, prior to the creation of PSS Commuting regulations (60-20-721), PSS Travel regulations found in 60-20-720 governed all travels (within and outside the CNMI). Sections, 60-20-720(c)(3)(4)(5), specifically describe the approval process. The intent of PSS Commute regulations, in this regard (approval), was to mirror original travel language on approval. It appears, however, that this was left out unintentionally. Thus PSS follows the intended process of approval as is found in 60-20-720(c)(3)(4)(5). Moreover, 60-20-721(c) contains information on what is required to submit with commute requests for approval. 60-20-721(g) provides for the time frame to liquidate commute travels as well as the required documentation. Again, given that commute regulations were intended to mirror 60-20-720 in these regards, PSS will utilize 60-20-720 when Commute regulations are silent.

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2014-002, Travel Advances, continued

Auditee Response, Continued:

- B. PSS Travel section initiated an intervention to resolve the undated request. The travel section accountant date stamp all travel request received. PSS Finance Travel section has already modified the official commute and travel authorization forms to include date lines with the signature lines. In addition to changing the forms, PSS Finance Travel section is also reminding approving officials to ensure they date their travel approvals. PSS Finance Travel section is also instructed to return any travel documents that do not have dated approvals.
- C. PSS revised §60-30-721 (e), Accounting and Reporting of Travel within the CNMI to clarify the per diem rates for travels within the CNMI. The revision was adopted by the Board of Education and was published last December 30, 2014 and is effective January 12, 2015. Furthermore, PSS Travel Regulations found in 60-20-720 governed all travels (within and outside the CNMI). 60-20-720(d)(10) provided that per diem covers all costs except airline and ground transportation. The intent of the created commute regulations found in 60-20-721 was to mirror 60-20-720(d)(10) in regards to this language on per diem. It appears that it was inadvertently left out. Moreover, the regulations state that it is "assumed." Thus, 60-20-721(e)(1) does not absolutely limit per diem to everything except airline transportation as this is only an assumption and not an absolute criteria of restriction.

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2014-003, Travel Advances Liquidation

Criteria:

Pursuant to Public School Systems Rules and Regulation § 60-20-721 (g) 5 and § 60-20-720 (g) 7 for travels within and outside the CNMI, respectively:

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

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

Conditions:

We selected 120 travel authorization for testing and noted the following conditions:

- A. 7 or 6% of the travel authorizations selected were liquidated late.

<u>Travel Authorization</u>	<u>Funding</u>	<u>End of Trip</u>	<u>Liquidation Date</u>	<u>No. of Workdays</u>
<i>Travel within the CNMI</i>				
115574	Headstart (CFDA 93.600)	6/14/2013	8/21/2013	49
116246	Headstart (CFDA 93.600)	8/15/2013	9/30/2013	33
119689	Headstart (CFDA 93.600)	4/5/2014	6/9/2014	46
115702	SPED (CFDA 84.027)	7/19/2013	9/17/2013	43
116726	SPED (CFDA 84.027)	9/27/2013	2/21/2014	106
<i>Travel outside the CNMI</i>				
116680	Headstart (CFDA 93.600)	9/29/2013	10/31/2013	24
117206	Headstart (CFDA 93.600)	10/26/2013	1/13/2014	56

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2014-003, Travel Advances Liquidation, Continued

Conditions, Continued:

B. 4 or 3% of the travel authorizations selected were unliquidated as of September 30, 2014.

Travel Authorization	Funding	End of Trip
120379	Consolidated (CFDA 84.403)	5/13/2014
117151	SPED (CFDA 84.027)	10/15/2013
117418	TFASEG (CFDA 84.256)	10/26/2013
117742	Headstart (CFDA 93.600)	11/23/2013

C. PSS Travel section does not issue a statement of Discrepancy that meets the requirement of Public School Systems Rules and Regulation. The ledger showing unliquidated travel advances which is used by the travel section to inform travelers of unliquidated advances does not contain all the information required by this regulation.

Cause:

Conditions A and B are due to travelers disregard of the policy since there is minimal consequence to them, especially for travels within the CNMI as they have already received the full travel advance.

Condition C is due to Travel Section's understanding that the statements they are providing the travelers are sufficient.

Effect:

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

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

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

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2014-003, Travel Advances Liquidation, Continued

Effect, Continued:

For Condition c, the failure of PSS to make timely follow up on the discrepancies noted on the liquidations may result to the uncollectibility of this receivables.

Recommendations:

PSS should consider including as taxable compensation the travel advances issued to travelers who did not timely liquidate. This will address that identified cause, with this tax consequence, travelers might be enticed to timely liquidating their advances.

PSS Travel Section should timely post all liquidation so that they can issue a Statement of Discrepancy pursuant to the regulation. Such statement should indicate that inaction from the Commuter means that the Commuter agrees with the discrepancies noted by the PSS Travel Section and is consenting to the payroll deduction.

Auditee Response:

Contact Person - Mr. Derek Sasamoto, Director of Finance
Completion Date – Corrective actions already implemented.

PSS Finance Travel section has already begun utilizing and issuing the notices of discrepancy in fiscal year 2015. Payroll deductions are then implemented upon expiration of the time allowed for in the notices. Moreover, all travel authorization forms (commutes and TAs) and the advance form have been updated to include language on traveler's liability, as well.

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Year Ended September 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2014-004, Human Resources

Criteria:

Personnel records should have all the required documents pursuant to PSS regulation § 60-30.1-910.

Condition:

Based on Results of testing of personnel records the following were noted:

- a. For 38 or 42% of 90 personnel records selected to testing, there were no current contracts or notice of personnel action on file.
- b. For 5 or 6% of 90 personnel records selected to testing, the contracts were signed more than 30 days after the effective dates.
- c. For 35 or 39% of 90 personnel records selected to testing, there were no current medical certificates.

Cause:

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

Effect:

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

Recommendations:

PSS should ensure that all the required documents all the required documents pursuant to PSS regulation §60-30.1-190.

All employment contracts and personnel action forms should be timely signed by the employee, filed and maintained.

Employment contracts should be updated in a timely manner.

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Year Ended September 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2014-004, Human Resources

Auditee Response:

Contact Person - Ms. Cynthia De Leon Guerrero, Human Resource Officer
Completion Date – March 2015

PSS hired a new Human Resource Officer (HRO) in fiscal year 2014 and the Human Resource Department continue to experience turnover in its senior staff. With the new HRO, PSS continue the implementation of corrective steps to ensure that all PSS employees have valid contracts. PSS aims to start the 2015-2016 school year with signed contracts for all employees and all personnel files updated

To ensure compliance, HRO and the HR Department staff will file employee Notice of Personnel Action (NOPA), contracts and supporting documents on a timely manner. During March 2015, HRO hired a personnel clerk who is assisting HRO in implementing and ensuring documents are stored and filed properly and timely.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2014-005, Procurement Change Orders

Criteria:

Pursuant to the standard terms and condition of PSS Contract, no additional cost shall be incurred until a change order is executed.

Pursuant to PSS Procurement Regulations § 60-40-115, (i) It is the responsibility of the official with expenditure authority to ensure that the contractor does not sign the contract or incur any expenses under it until all necessary government signatures have been obtained.

Emergency procurement is allowed under §60-40-220 of the PSS Procurement regulations for the following:

1. An unusual and compelling urgency precludes full and open competition; and
2. Delay in award of a contract would result in serious injury, financial or other to the Public School System.

Conditions:

For 3 or 7.5% of 40 Contracts selected for testing, after-the-fact change orders and contract executed as follows:

- A. A change order amounting to \$32,100 was made to Contract No. 117904. The justification dated July 29, 2014 indicated that the change order was necessary to cover the cost of additional trainings held in February and May 2014. The change order was subsequently approved in August 25, 2014.
- B. A change order amounting to \$128,092 was made to Contract No. 70239 for excess prints on the leased network printers billed on August 2013. The change order was approved on October 29, 2013.

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Year Ended September 30, 2014

Finding No. 2014-005, Procurement Change Orders, Continued

Conditions, Continued:

- C. Contract 116918 for Electronic Grade book and technical assistance and training amounting to \$96,847 was approved in October 17, 2013. The following invoices paid under this contract were for products and services received prior to the contract approval:

<u>Invoice No.</u>	<u>Date</u>	<u>Amount</u>
20133703	8/2/2013	\$27,373.44
20133702	8/2/2013	5,274.00
20132373	6/6/2013	<u>64,200.00</u>
		<u>\$96,847.44</u>

Cause:

- A. Lack of proper planning on the training needs and the projected participants.
- B. Lack of monitoring of the actual print consumptions against the projected consumption based on the contract.
- C. The person with expenditure authority failed to carry out his responsibility pursuant to PSS Procurement Regulations § 60-40-115, (i), to ensure that the contractor does not incur any expenses under it until all necessary government signatures have been obtained.

Effect:

The above mentioned contracts are not in compliance with PSS regulations.

Recommendation:

PSS should ensure that no costs are incurred prior to proper execution of contracts and change orders.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

Finding No. 2014-005, Procurement Change Order, Continued

Auditee Response:

Contact Person – Mr. Tim Thornburg, Federal Officer
Mr. George Palican, Internal Auditor
and Mr. Derek Sasamoto, Director of Finance

Completion Date – N/A

- a. PSS maintains its position that the additional cost for the change order, although done after the fact, is reasonable and necessary. In fact, had PSS processed a change order and requested the contractor to return on a future date, it would have cost PSS more as it would have entailed additional travel cost.
- b. The Fiscal and Budget Department will utilize the accounting software to monitoring of the actual print consumptions against the projected consumption based on the contract and report timely to Department Heads so that they may timely request for change order, if necessary.
- c. This is an isolated instance wherein PSS intended to timely process the contracts; however, the request was overlooked.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2014-006 Other Matters: Procurement – After-the-Fact Change Order

Grantor: U.S. Department of Education
Program Name: Territories and Freely Associated States Educational Grant (T&FASEG)
Program
CFDA No.: 84.256
Grant Number: S2256A12002

Criteria:

Pursuant to the standard terms and condition of PSS Contract, no additional cost shall be incurred until a change order is executed.

Condition:

A change order amounting to \$32,100 was made to Contract No. 117904. The justification dated July 29, 2014 indicated that it was necessary to cover the cost of additional trainings held in February and May 2014. The change order was approved in August 25, 2014.

Cause:

PSS management assessed that the additional training is necessary and the related cost is reasonable.

Effect:

Since the cost were incurred before the approval of the change order, the \$32,100 additional costs maybe unallowed.

Cause:

Lack of proper planning on the training needs and the projected participants.

Recommendation:

Prior to scheduled trainings, especially for those training with third party consultants or service providers, PSS should survey the projected participant so that change order for additional sessions may be executed before the actual service is provided.

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Year Ended September 30, 2014

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2014-006 Other Matters: Procurement – After-the-Fact Change Order, Continued

Auditee Response:

Contact Person - Mr. Tim Thornburg, Federal Officer

Completion Date – N/A

PSS maintains its position that the additional cost for the change order, although done after the fact, is reasonable and necessary. In fact, had PSS processed a change order and requested the contractor to return on a future date would have cost PSS more as this would entail additional travel cost.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2014-007 Internal Control over Compliance – Liquidation of Travel Advances

Grantor: All
Program Name: All
CFDA No.: All

Criteria:

Pursuant to Public School Systems Rules and Regulation § 60-20-721 (g) 5 and § 60-20-720 (g) 7 for travels within and outside the CNMI, respectively:

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

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

Conditions:

We selected 120 travel authorization for testing and noted the following conditions:

- A. 7 or 6% of the travel authorizations selected were liquidated late.

<u>Travel Authorization</u>	<u>Funding</u>	<u>End of Trip</u>	<u>Liquidation Date</u>	<u>No. of Workdays</u>
<i>Travel within the CNMI</i>				
115574	Headstart (CFDA 93.600)	6/14/2013	8/21/2013	49
116246	Headstart (CFDA 93.600)	8/15/2013	9/30/2013	33
119689	Headstart (CFDA 93.600)	4/5/2014	6/9/2014	46
115702	SPED (CFDA 84.027)	7/19/2013	9/17/2013	43
116726	SPED (CFDA 84.027)	9/27/2013	2/21/2014	106
<i>Travel outside the CNMI</i>				
116680	Headstart (CFDA 93.600)	9/29/2013	10/31/2013	24
117206	Headstart (CFDA 93.600)	10/26/2013	1/13/2014	56

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

**Finding 2014-007 Internal Control over Compliance – Liquidation of Travel Advances,
Continued**

Conditions, Continued:

B. 4 or 3% of the travel authorizations selected were unliquidated as of September 30, 2014.

Travel Authorization	Funding	End of Trip
120379	Consolidated (CFDA 84.403)	5/13/2014
117151	SPED (CFDA 84.027)	10/15/2013
117418	TFASEG (CFDA 84.256)	10/26/2013
117742	Headstart (CFDA 93.600)	11/23/2013

C. PSS Travel section does not issue a statement of Discrepancy that meets the requirement of Public School Systems Rules and Regulation. The ledger showing unliquidated travel advances which is used by the travel section to inform travelers of unliquidated advances does not contain all the information required by this regulation.

Cause:

Conditions A and B is due to travelers' disregard of the policy since there is minimal consequence to them, especially for travels within the CNMI as they have already received the full travel advance.

Condition C is due to Travel sections understanding that the statements they are providing the travelers are sufficient.

Effect:

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

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

**Finding 2014-007 Internal Control over Compliance – Liquidation of Travel Advances,
Continued**

Effect, Continued:

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

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

For Condition C, the failure of PSS to make timely follow up on the discrepancies noted on the liquidations may result to the uncollectibility of this receivables.

Recommendations:

PSS should consider including as taxable compensation the travel advances issued to travelers who did not timely liquidate. This will address that identified cause, with this tax consequence, travelers might be enticed to timely liquidating their advances.

PSS Travel section should timely post all liquidation so that they can issue a Statement of Discrepancy pursuant to the regulation. Such statement should indicate that inaction from the Commuter means that the Commuter agrees with the discrepancies noted by the PSS Travel section and is consenting to the payroll deduction.

Auditee Response:

Contact Person - Mr. Derek Sasamoto, Director of Finance
Completion Date – June 2015

PSS Travel section has already begun utilizing and issuing the notices of discrepancy in fiscal year 2015. Payroll deductions are then implemented upon expiration of the time allowed for in the notices. Moreover, all travel authorization forms (commutes and TAs) and the advance form have been updated to include language on traveler's liability, as well.

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2014-008 Internal Control over Compliance – Human Resources

Grantor: All
Program Name: All
CFDA No.: All

Criteria:

Personnel records should have all the required documents pursuant to PSS regulation § 60-30.1-910.

Condition:

Based on Results of testing of personnel records the following were noted:

A. No current contract or notice of personnel action on file.

25 or 66% of 38 personnel records noted in Finding No. 2014-004 (a) were for the following major programs:

SPED (CFDA 84.027)	10
FNS (CFDA 10.555)	1
Consolidated (CFDA 84.403)	4
Headstart (CFDA 93.600)	<u>10</u>
	<u>25</u>

B. No current medical certificates.

19 or 54% of 35 personnel records noted in Finding No. 2014-004 (c) were for the following major programs:

SPED (CFDA 84.027)	6
FNS (CFDA 10.555)	1
Consolidated (CFDA 84.403)	2
Headstart (CFDA 93.600)	<u>10</u>
	<u>19</u>

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Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2014-008 Internal Control over Compliance – Human Resources

Cause:

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

Effect:

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

Recommendations:

PSS should ensure that all the required documents all the required documents pursuant to PSS regulation §60-30.1-190.

All employment contracts and personnel action forms should be timely signed by the employee, filed and maintained.

Employment contracts should be updated in a timely manner.

Auditee Response:

Contact Person - Ms. Cynthia De Leon Guerrero, Human Resource Officer
Completion Date – March 2015

PSS hired a new Human Resource Officer (HRO) in fiscal year 2014 and the Human Resource Department continue to experience turnover in its senior staff. With the new HRO, PSS continue the implementation of corrective steps to ensure that all PSS employees have valid contracts. PSS aims to start the 2015-2016 school year with signed contracts for all employees and all personnel files updated

To ensure compliance, HRO and the HR Department staff will file employee Notice of Personnel Action (NOPA), contracts and supporting documents on a timely manner. During March 2015, HRO hired a personnel clerk who is assisting HRO in implementing and ensuring documents are stored and filed properly and timely.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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



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SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

A. FINANCIAL STATEMENT FINDINGS

Reference No.	Findings	Status
13-01	Use of Restricted Cash	In progress. Similar condition noted in Finding No. 2014-001.
13-02	Accrual and timely reconciliation of CNMI Appropriations	Resolved.
13-03	Travel Advances	Not Corrected. Similar condition noted in Findings No. 2014-002 And No. 2014-03.
13-04	Human Resources and Payroll	Not Corrected. Similar condition noted in Finding No. 2014-004.
12-03	Use of Restricted Cash	In progress. Similar condition noted in Finding No. 2014-001.
12-04	Accrual and timely reconciliation of CNMI Appropriations	Resolved.
12-07	Travel Advances	Not Corrected. Similar condition noted in Finding No. 2014-002.
12-08	Human Resources and Payroll	Not Corrected. Similar condition noted in Finding No. 2014-004.

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Schedule of Prior Year Audit Findings
Year Ended September 30, 2014

Reference No.	Findings	Status
12-09	Tax Compliance	Resolved.
B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS		
13-03	Travel Advances	Not Corrected. Similar condition noted in Finding No. 2014-007.
13-04	Human Resources and Payroll	Not Corrected. Similar condition noted in Finding No. 2014-008.
13-05	Allowed Costs/Cost Principles - Compensation – Compliance with Human Resources Policies and Procedures.	Unresolved. Similar condition noted in Finding No. 2014-008.
13-06	Compensation - Time Cards	Resolved.
13-07	Procurement and Suspension and Debarment – Public Notice and Bidding Time	Resolved.
13-08	Change Orders	Unresolved. Similar Condition noted in Finding No. 2014-006
12-13	Procurement and Suspension and Debarment – Public Notice and Bidding Time	Resolved.
12-16	Allowable Costs/Cost Principles - Travel –	Unresolved. Similar condition noted in Finding No. 2014-007.
12-17	Equipment and Real Property Management –	Resolved. Corrective actions were taken.

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Summary of Unresolved Questioned Costs
Year Ended September 30, 2014

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2014:

Questioned costs as previously reported	\$ 76,584
Questioned costs resolved during the year ended September 30, 2014	-
Questioned costs of fiscal year 2014 Single Audit	_____ -
Unresolved questioned costs at September 30, 2014	<u>\$ 76,584</u>

This was subsequently closed in January 30, 2015, pursuant to the Order of Dismissal received from the United States Department of Education, Office of Administrative Law Judges.