

PUBLIC SCHOOL SYSTEM

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

Year Ended September 30, 2017

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
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COMPREHENSIVE ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITORS' 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, 2017, 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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the PSS, as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2018, on our consideration of the PSS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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
June 19, 2018



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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, 2017. 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 2017, PSS’ net position amounted to \$79,806,346, an increase of \$3,772,237 or 5%, from the \$76,034,109 in fiscal year 2016 net position. This increase was primarily due to excess revenues over expenses. PSS total expenses for fiscal year 2017 amounted to \$83,569,488 while aggregate support from Federal Agencies, CNMI appropriations and other revenues amounted to \$ 87,341,725.

PSS’ net position includes investment in capital assets, net of accumulated depreciation, of \$76,449,070, restricted for special purpose of \$3,017,788 and deficit of \$339,488. The deficit is due to noncurrent liabilities that are to be funded by appropriations from the CNMI government.

PSS’ enrollment for school year 2016-2017 was 10,220 students. There was a decrease of 129 students from 10,349 students for school year 2015-2016.

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's 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.

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.

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 uses 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.

Condensed Statements of Net Position

	2017	2016	2015 Restated
Current assets	11,012,533	8,793,024	8,866,389
Capital improvement projects	-	-	-
Capital assets, net	76,449,070	76,830,389	77,939,922
Total assets	87,461,603	85,623,413	86,806,311
<i>Change against prior year - dollar amount</i>	<i>1,838,190</i>	<i>(1,182,898)</i>	<i>-595,497</i>
<i>Change against prior year - percent</i>	<i>2%</i>	<i>-1%</i>	<i>-1%</i>
Current liabilities	5,510,807	5,087,668	5,076,308
Noncurrent liabilities	1,222,514	3,547,050	4,288,490
Total liabilities	6,733,321	8,634,718	9,364,798
<i>Change against prior year - dollar amount</i>	<i>(1,901,397)</i>	<i>(730,080)</i>	<i>(813,751)</i>
<i>Change against prior year - percent</i>	<i>-22%</i>	<i>-8%</i>	<i>-8%</i>
Deferred inflows of resources	921,936	954,586	1,081,518
<i>Change against prior year - dollar amount</i>	<i>(32,650)</i>	<i>(126,932)</i>	<i>(142,252)</i>
<i>Change against prior year - percent</i>	<i>-3%</i>	<i>-12%</i>	<i>-12%</i>
Investment in capital assets and capital improvement projects	76,449,070	76,830,389	77,939,922
Restricted for special purpose	3,017,788	2,040,367	2,281,353
Unassigned (Deficit)	339,488	(2,836,647)	(3,861,280)
Net position	79,806,346	76,034,109	76,359,995
<i>Change against prior year - dollar amount</i>	<i>3,772,237</i>	<i>(325,886)</i>	<i>360,506</i>
<i>Change against prior year - percent</i>	<i>5%</i>	<i>-0.4%</i>	<i>0.5%</i>

- Current assets of \$11,012,533 as of September 30, 2017 increased by \$2,219,509 or 25 % compared to current assets \$8,793,024 as of September 30, 2016.
- The decrease in capital assets is primarily due to depreciation expense.
- Current liabilities of \$5,510,817 as of September 30, 2017 increased by \$423,139 or 8% compared to \$5,087,668 as of September 30, 2016 primarily due to the purchase of instructional materials from various vendors.
- Deferred inflows of resources pertains to monies received in advance from federal and local sources. There were no significant changes in the account balance as activities are consistent with prior year.
- At the end of fiscal year 2017, PSS' net position is at \$79,806,346, including \$339,488 of assets unassigned.

Condensed Statements of Activities

	2017	2016	2015
Revenues			
Program Revenues	39,480,730	34,968,066	32,779,917
General revenues	47,860,995	36,967,084	33,893,998
Total revenues	87,341,725	71,935,150	66,673,915
<i>Change against prior year - dollar</i>	<i>15,406,575</i>	<i>5,261,235</i>	<i>2,375,320</i>
<i>Change against prior year - percent</i>	<i>21%</i>	<i>8%</i>	<i>4%</i>
Expense:			
Instruction	75,704,621	64,980,915	58,262,027
Support Services	7,864,867	7,280,121	8,222,560
Total expenses	83,569,488	72,261,036	66,484,587
<i>Change against prior year - dollar</i>	<i>11,308,452</i>	<i>5,776,449</i>	<i>1,111,965</i>
<i>Change against prior year - percent</i>	<i>16%</i>	<i>9%</i>	<i>2%</i>
Change in net position	3,772,237	(325,886)	189,328
Prior year restatement		-	171,178
Net position, beginning	76,034,109	76,359,995	75,999,489
Net position, ending	79,806,346	76,034,109	76,359,995
<i>Change against prior year - dollar</i>	<i>3,772,237</i>	<i>(325,886)</i>	<i>360,506</i>
<i>Change against prior year - percent</i>	<i>5%</i>	<i>-0.4%</i>	<i>0.5%</i>

- The overall increase in revenues and related expenses is due to increase in CNMI appropriations by \$10,893,911 and increase in federal grants received by \$4,512,664. A more detailed revenues and expenses discussion follows.

Revenues

	2017	2016	Difference	% Change
Program revenues				
Charges for Services	\$ 766,030	\$ 717,777	\$ 48,253	7%
Grants and contributions	38,714,700	34,250,289	4,464,411	13%
Total program revenues	39,480,730	34,968,066	4,512,664	13%
General revenues				
CNMI appropriations	46,991,874	36,455,094	10,536,780	29%
Miscellaneous	869,121	511,990	357,131	70%
Total general revenues	47,860,995	36,967,084	10,893,911	29%
Total revenues	87,341,725	71,935,150	15,406,575	21%
	2016	2015	Difference	% Change
Program revenues				
Charges for Services	\$ 717,777	\$ 620,673	(\$ 187,094)	-30%
Grants and contributions	34,250,289	32,159,244	1,839,573	6%
Total program revenues	34,968,066	32,779,917	1,652,479	0.05
General revenues				
CNMI appropriations	36,455,094	33,614,198	2,840,896	8%
Miscellaneous	511,990	279,800	232,190	83%
Total general revenues	36,967,084	33,893,998	3,073,086	9%
Total revenues	\$ 71,935,150	\$ 66,673,915	\$ 2,375,320	4%

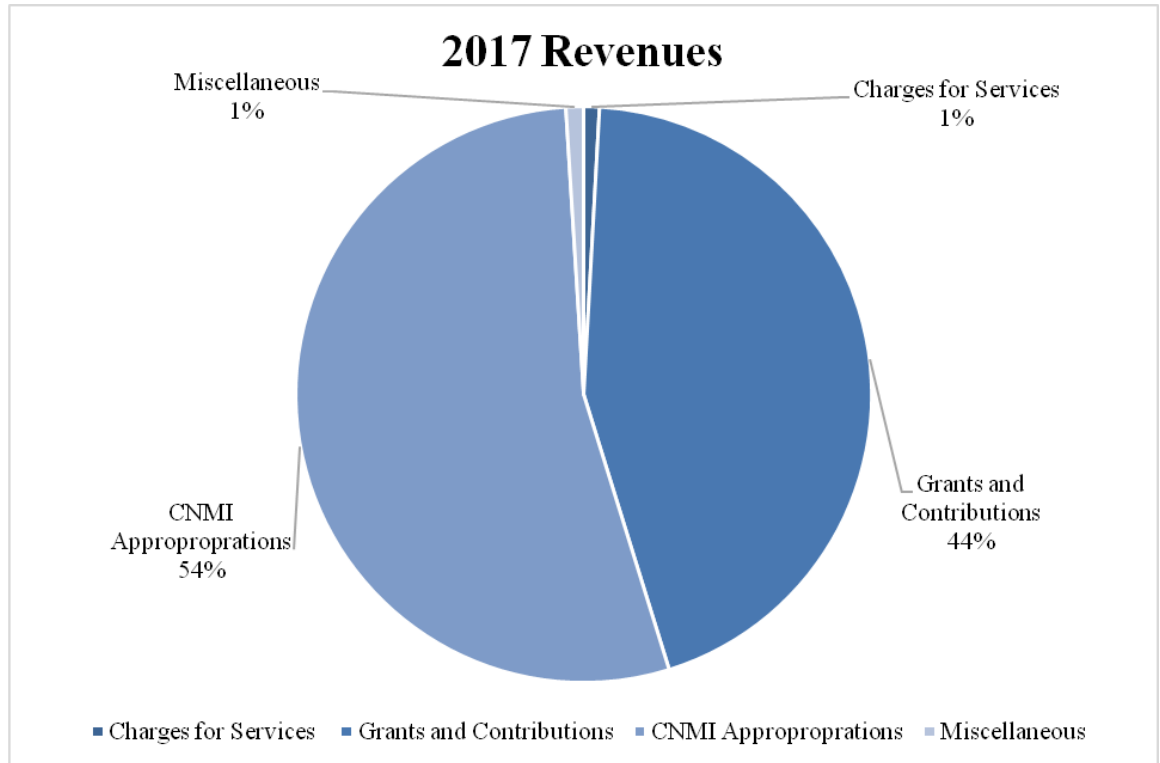
Total revenues for fiscal year 2017 were \$71,935,150, a \$2,375,320 or 4% increase from fiscal year 2016. The increase in 2017 revenue is primarily due to increase in revenues from federal grants and CNMI appropriations.

The increase in federal grants received is primarily from the U.S Department of Education Consolidated grants. PSS expended \$11,882,472 for this grant in fiscal year 2017, a \$947,360 increase from \$10,935,112 in fiscal year 2016.

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.



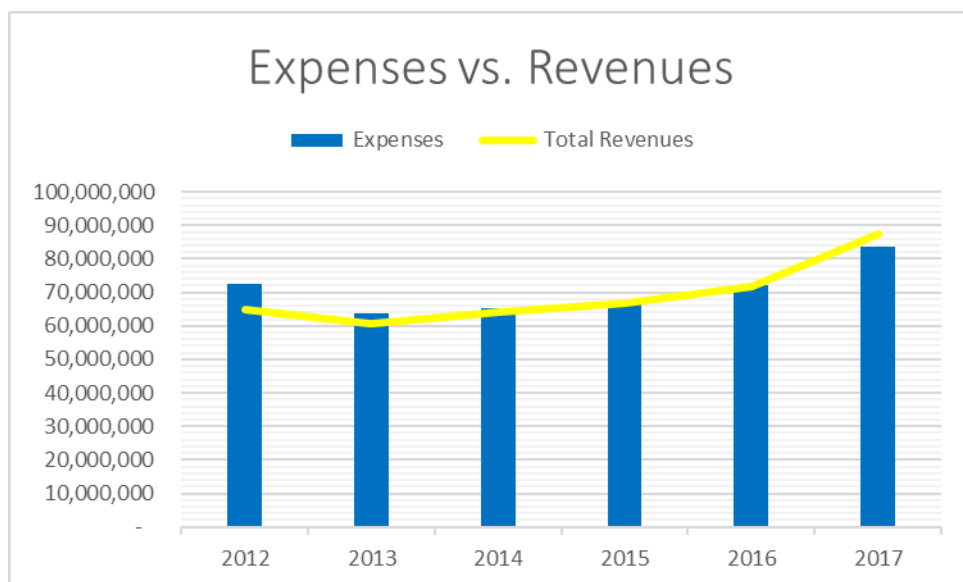
Expenses

Total district-wide expenses by function are as follows:

	2017	2016	Difference	% Change
Instruction:				
Regular	\$ 45,272,403	\$ 37,625,527	\$ 7,646,876	20%
Special	12,533,410	9,859,830	2,673,580	27%
Co-curricular	9,220,585	3,926,220	5,294,365	135%
Student services	8,678,223	13,569,338	(4,891,115)	-36%
Total instruction expenses	75,704,621	64,980,915	10,723,706	17%
Support services:				
General administration	604,952	2,528,246	(1,923,294)	-76%
School administration	2,514,508	1,945,967	568,541	29%
Other support	3,134,115	641,235	2,492,880	389%
Individual programs	7,888	488,164	(480,276)	-98%
Depreciation - unallocated	1,603,404	1,676,509	(73,105)	-4%
Total Support services expenses	7,864,867	7,280,121	584,746	8%
Total Expenses	\$ 83,569,488	\$ 72,261,036	\$ 11,308,452	16%
	2016	2015	Difference	% Change
Instruction:				
Regular	\$ 37,625,527	\$ 35,384,191	\$ 2,241,336	6%
Special	9,859,830	8,308,027	1,551,803	19%
Co-curricular	3,926,220	3,426,985	499,235	15%
Student services	13,569,338	11,142,824	2,426,514	22%
Total instruction expenses	64,980,915	58,262,027	6,718,888	12%
Support services:				
General administration	2,528,246	3,189,148	(660,902)	-21%
School administration	1,945,967	2,203,341	(257,374)	-12%
Other support	641,235	677,014	(35,779)	-5%
Individual programs	488,164	320,868	167,296	52%
Depreciation - unallocated	1,676,509	1,832,189	(155,680)	-8%
Total Support services expenses	7,280,121	8,222,560	(942,439)	-11%
Total Expenses	\$ 72,261,036	\$ 66,484,587	\$ 5,776,449	9%

Total expenses in 2017 increased by \$11,308,452 or 16% as compared to fiscal year 2016. The increase in fiscal year 2017 expenses is primarily due to increase in general administration expenses for settlement of liabilities. The expenses for regular instruction increased by \$7,646,876, primarily due to increase in total instructional expenditures used to improve the quality of instruction. Furthermore, the expense for regular co-curricular increased by \$5,294,365, primarily due to new funding to support co-curricular instruction.

Total expenses in 2016 increased by \$5,776,449, or 9% as compared to fiscal year 2015. The increase in fiscal year 2016 expense is primarily due to increase in total instructional expenditures used to improve the quality of instruction.



	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Expenses	72,443,730	63,762,350	65,372,620	66,484,580	72,261,036	83,569,488
Total Revenues	64,785,350	60,559,800	64,298,590	66,673,910	71,935,150	87,341,725

The chart above shows the relationship of revenues and expenses for the past five years. Except for 2015 and the current fiscal year, expenses exceeded revenues from 2012-2014 and during 2016. With the increase in CNMI appropriations for 2017, PSS was able to end the current fiscal year with unassigned surplus.

FUND ANALYSIS

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Non - Major Fund</u>	<u>Total</u>
Fund balance, beginning of year	2,418,598	684,845	1,852,751	4,956,194
Fund balance, end of year	<u>3,782,177</u>	<u>684,866</u>	<u>1,984,812</u>	<u>6,451,855</u>
Change in fund balance	<u>1,363,579</u>	<u>21</u>	<u>132,061</u>	<u>1,495,661</u>
Percentage Change	56%	0%	7%	30%

The Fund balance increased by \$1,495,661 to \$6,451,855 as of September 30, 2017.

Of the \$6,451,855, \$3,017,788 or 47% are restricted for specific purpose by grantors and donor, \$808,939 or 13% are assigned for specific programs approved by the Board of Education and \$2,625,128 or 40% are unassigned.

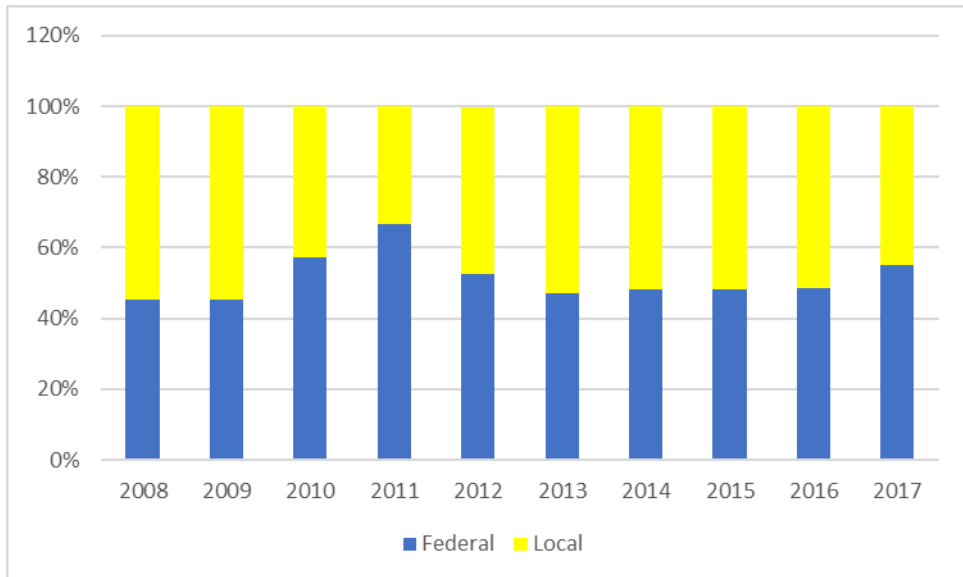
BUDGETARY ANALYSIS

	General Fund				Variance Favorable (Unfavorable)
	Original	Budget Revision	Final	Actual	
	Expenditures:				
Personnel	\$ 36,461,094	\$ -	\$ 36,461,094	\$ 32,994,703	\$ 3,466,391
All other	10,530,780	-	10,530,780	12,855,197	(2,324,417)
Total expenditures	<u>46,991,874</u>	<u>-</u>	<u>46,991,874</u>	<u>45,849,900</u>	<u>1,141,974</u>
Revenue:					
CNMI appropriation	<u>46,991,874</u>	<u>-</u>	<u>46,991,874</u>	<u>46,991,874</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,141,974</u>	<u>\$ 1,141,974</u>
Reconciliation of Budget to GAAP Basis					
2017 Budget					
Appropriations				\$ 46,991,874	
2017 Expenditures					
Actual (GAAP)				<u>45,849,900</u>	
Variance				<u>\$ 1,141,974</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 \$1,141,974.

Federal and Local Budget Review

Year	Total	Federal	Local
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	62,339,197	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%
2015	65,033,822	31,419,624 48%	33,614,198 52%
2016	70,672,847	34,217,753 48%	36,455,094 52%
2017	85,706,574	38,714,700 45%	46,991,874 55%



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

CAPITAL ASSETS

PSS' investment in capital assets, net of accumulated depreciation, as of September 30, 2017, 2016 and 2015 were \$76,449,070, \$76,830,389 and \$77,939,922, respectively. Depreciation expense for the years ended September 30, 2017, 2016 and 2015 was \$1,603,404, \$1,676,509 and \$1,832,189, respectively.

More detailed information on capital assets is on page 39 (Note 3) of the basic financial statements.

FUTURE PLANS AND ECONOMIC OUTLOOK

For fiscal year 2017, PSS received \$46.9 million in appropriations. This was a significant increase from the previous fiscal year. HLI 18-12 which guarantees PSS 25% of locally generated revenues resulted in this increase and we project a \$2 million increase per year based on our growing tourism-based economy and casino taxes. This modest increase of 5% per year will allow the hiring of more teachers to further manage class sizes, but also to repair, improve, and modernize PSS campuses.

In addition, PSS secured a \$3 million loan from the USDA Rural Development Program to construct additional classrooms and other school infrastructure needs. The repayment of this loan is committed through local appropriations. This loan will fulfill some of the needs of PSS that cannot be funded from other sources.

Future appropriations will be dependent on CNMI Government revenue projections. Given the upturn in the CNMI economy it is hoped that guaranteed funding, as a result of the passage of HLI 18-12, will increase in the coming years at the projected rate of at least 5% or more. Investment in education is vital for any society and economy.

Despite the funding challenges year-to-year, PSS has much to celebrate. PSS students have won national awards in theater, debate, show choir, JROTC and STEM competitions. Student success is a PSS success. There will several students from the CNMI who will be attending Ivy League schools next year. This illustrates PSS' commitment to Students First. Despite significant funding limitations, PSS does its best to produce for its students.

The scholarships awarded to our students to attend prestigious colleges and universities in the mainland are evidence of the quality of public education in the CNMI. For the eighth consecutive year PSS senior student survey data shows that 61% of our graduating seniors plan to attend college, 16% enlist in the armed services and 24% are career-ready and are securing jobs in our growing tourism-based economy.

Finally, another measure of success for PSS is the improvement in audit performance as a system. Accountability and transparency are key commitments of PSS as a Public Agency in addition to serving Students First.

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:

Christopher Ching
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, 2017

Assets

Current assets:

Cash and cash equivalents	\$ 6,370,735
Receivables from the CNMI Government	2,914
Receivables from Federal agencies	1,744,026
Other receivables, net	2,894,858
Total current assets	11,012,533

Noncurrent assets:

Capital assets, net	76,449,070
Total Assets	87,461,603

Liabilities

Current liabilities:

Accounts payable and accrued expenses	3,638,742
Compensated absences due in one year	1,872,065
Total current liabilities	5,510,807

Noncurrent liabilities:

Compensated absences	1,222,514
Total noncurrent liabilities	1,222,514
Total Liabilities	6,733,321

Deferred Inflows of Resources

Grants received	921,936
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Net Position

Investment in:

Capital assets	76,449,070
Restricted for special purpose	3,017,788
Unassigned	339,488
Net Position	\$ 79,806,346

TOTAL LIABILITIES AND NET ASSETS	\$ 87,461,603
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See accompanying notes to basic financial statements.

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

(A Component Unit of the CNMI Government)

Statement of Activities
For the Year Ended September 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		<u>Net (Expenses) Revenues</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction:				
Regular	\$ 45,272,403	\$ 766,030	\$ 17,231,910	\$ (27,274,463)
Student services	12,533,410	-	11,220,782	(1,312,628)
Special	9,220,585	-	7,363,003	(1,857,582)
Co-curricular	<u>8,678,223</u>	<u>-</u>	<u>2,354,062</u>	<u>(6,324,161)</u>
Total instruction	<u>75,704,621</u>	<u>766,030</u>	<u>38,169,757</u>	<u>(36,768,834)</u>
Support services:				
Other	3,134,115	-	221,605	(2,912,510)
School administration	2,514,508	-	315,450	(2,199,058)
General administration	604,952	-	-	(604,952)
Individual programs	7,888	-	7,888	-
Depreciation - unallocated	<u>1,603,404</u>	<u>-</u>	<u>-</u>	<u>(1,603,404)</u>
Total support services	<u>7,864,867</u>	<u>-</u>	<u>544,943</u>	<u>(7,319,924)</u>
Total governmental activities	<u>\$ 83,569,488</u>	<u>\$ 766,030</u>	<u>\$ 38,714,700</u>	<u>(44,088,758)</u>
				46,991,874
				<u>869,121</u>
				<u>47,860,995</u>
				3,772,237
				<u>76,034,109</u>
				<u>\$ 79,806,346</u>

See accompanying notes to basic financial statements.

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

Balance Sheet
Governmental Funds
September 30, 2017

	General Fund	Federal Fund	Non-major Funds	Total
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 1,595,110	\$ 1,656,606	\$ 3,119,019	\$ 6,370,735
Receivables from CNMI	2,914	-		2,914
Receivables from Federal agencies	-	1,402,894	341,132	1,744,026
Other receivables	2,869,412		25,446	2,894,858
Due from (to) other funds	2,247,809	(1,657,154)	(590,655)	-
TOTAL ASSETS	<u>\$ 6,715,245</u>	<u>\$ 1,402,346</u>	<u>\$ 2,894,942</u>	<u>\$ 11,012,533</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
Liabilities:				
Accounts payable and accrued expenses	\$ 2,933,068	\$ 705,674	-	\$ 3,638,742
Total liabilities	<u>2,933,068</u>	<u>705,674</u>	<u>-</u>	<u>3,638,742</u>
Deferred Inflows of Resources:				
Grants received	-	11,806	910,130	921,936
Total deferred inflows of resources	<u>-</u>	<u>11,806</u>	<u>910,130</u>	<u>921,936</u>
Fund Balances:				
Restricted	-	684,866	2,332,922	3,017,788
Assigned	-	-	808,939	808,939
Unassigned	3,782,177	-	(1,157,049)	2,625,128
Total fund balances	<u>3,782,177</u>	<u>684,866</u>	<u>1,984,812</u>	<u>6,451,855</u>
Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,715,245</u>	<u>\$ 1,402,346</u>	<u>\$ 2,894,942</u>	
Reconciliation of fund balance of governmental funds to net position - governmental activities:				
Fund balances- governmental funds				6,451,855
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.				
Cost of capital assets			\$ 106,266,277	
Accumulated depreciation			(29,817,207)	76,449,070
Long-term liabilities that are not due and payable in the current period and therefore are not reported as liabilities in the Funds.				
Compensated absences				(3,094,579)
Net position - governmental activities				<u>\$ 79,806,346</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
Governmental Funds
For the Year Ended September 30, 2017

	General Fund	Federal Fund	Non-major Funds	Total
Revenues:				
Federal	\$ 221,605	\$ 36,757,152	\$ 1,735,943	\$ 38,714,700
Local	-	-	869,121	869,121
CNMI appropriations	46,991,874	-	-	46,991,874
Charges for services	-	-	766,030	766,030
Total revenues	<u>47,213,479</u>	<u>36,757,152</u>	<u>3,371,094</u>	<u>87,341,725</u>
Expenditures:				
Instructional programs:				
Regular	27,665,095	17,231,909	297,092	45,194,096
Student services	1,291,249	11,220,782	21,379	12,533,410
Special	1,811,705	7,363,003	45,877	9,220,585
Co-curricular	7,472,075	618,099	588,050	8,678,224
Total instructional programs	<u>38,240,124</u>	<u>36,433,793</u>	<u>952,398</u>	<u>75,626,315</u>
Supporting services:				
Other	2,921,383	-	1,434,817	4,356,200
School administration	2,191,588	315,450	7,470	2,514,508
General administration	2,496,805	-	844,348	3,341,153
Individual programs	-	7,888	-	7,888
Total supporting services	<u>7,609,776</u>	<u>323,338</u>	<u>2,286,635</u>	<u>10,219,749</u>
Total expenditures	<u>45,849,900</u>	<u>36,757,131</u>	<u>3,239,033</u>	<u>85,846,064</u>
Excess of revenues over expenditures and other financing sources	1,363,579	21	132,061	1,495,661
Fund balance, beginning	<u>2,418,598</u>	<u>684,845</u>	<u>1,852,751</u>	<u>4,956,194</u>
Fund balance, ending	<u>\$ 3,782,177</u>	<u>\$ 684,866</u>	<u>\$ 1,984,812</u>	<u>\$ 6,451,855</u>

See accompanying notes to basic financial statements.

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

(A Component Unit of the CNMI Government)

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance with the District-wide Statement of Activities
For the Year Ended September 30, 2017

Total net change in fund balances - governmental funds	\$	1,495,661
Amounts reported for governmental activities in the statement of activities are different because of:		
Payment for prior year utilities - CUC long term debt		2,736,202
Change in compensated absences		(78,307)
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 position and allocated over their estimated useful lives as annual depreciation expense in the statements of activities. This is the amount by which capital outlays exceed (are less than) depreciation in the period.		
Capital outlays	\$	1,222,085
Depreciation expense		(1,603,404)
		<u>(381,319)</u>
Total change in net position	\$	<u>3,772,237</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, 2017

	General Fund				
	Budget				Variance
	Original	Revision	Final	Actual	Favorable (Unfavorable)
Expenditures:					
Personnel	\$ 36,461,094	\$ -	\$ 36,461,094	\$ 32,994,703	\$ 3,466,391
All other	<u>10,530,780</u>	<u>-</u>	<u>10,530,780</u>	<u>12,855,197</u>	<u>(2,324,417)</u>
Total expenditures	<u>46,991,874</u>	<u>-</u>	<u>46,991,874</u>	<u>45,849,900</u>	<u>1,141,974</u>
Revenues:					
CNMI appropriation	<u>46,991,874</u>	<u>-</u>	<u>46,991,874</u>	<u>46,991,874</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,141,974</u>	<u>\$ 1,141,974</u>
Reconciliation of Budget to GAAP Basis					
2017 Budget					
Appropriations				\$ 46,991,874	
2017 Expenditures					
Actual (GAAP)				<u>45,849,900</u>	
Variance				<u>\$ 1,141,974</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, 2017

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

Pursuant to CNMI Constitutional Amendment No. 38 and House Legislative Initiative 18-12, the public education school system is guaranteed an annual budget of not less than twenty five percent (25%) of general fund revenues of the CNMI Government. This budgetary appropriation may not be reprogrammed for other purposes, and any unencumbered fund balance at the end of a fiscal year shall be available for 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 with governmental funds. It does not have any fiduciary or proprietary funds.

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

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

Notes to the Basic Financial Statements
September 30, 2017

(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, 2017 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, 2017

(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, 2017

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

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

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

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

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

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

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

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

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

Notes to the Basic Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

The amounts reported as committed as of September 30, 2017 pertain to appropriated funds restricted by Public Law No. 16-10 available at the closure of the Indenture Trust Agreement to fund critical classroom repairs, renovations and paving of public school parking areas. The Commissioner of Education has the spending authority.

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

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

D. Budgetary Data

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

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

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

Notes to the Basic Financial Statements
September 30, 2017

(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, 2017 was \$3,094,579. 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, 2017

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities, and Fund Equity, Continued

3. Compensated Absences, Continued

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

4. Revenues

Revenues are classified as either program or general.

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

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

5. Net Position/Fund Balances

Net position in the district-wide financial statements are classified as investment in capital assets; investment in capital improvement projects in progress; restricted and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or the laws or regulations of Federal agencies, or imposed by law through state statute.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
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Notes to the Basic Financial Statements
September 30, 2017

(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, 2017 pertains to unreimbursed advances between the general fund and the other funds.

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

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

F. New Accounting Standards

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement aligns the reporting requirements for pensions and pension plans not covered in GASB Statement Nos. 67 and 68 with the reporting requirements in Statement No. 68. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015, with the exception of the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. The implementation of this statement did not have a material effect on the PSS's financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. The implementation of this statement did not have a material effect on the PSS's financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
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Notes to the Basic Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. Management has not evaluated the impact that the implementation of this statement will have on the PSS's financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement addresses an issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. GASB Statement No. 78 is effective for the fiscal year ending September 30, 2017. The implementation of this statement did not have a material effect on the PSS's financial statements.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. GASB Statement No. 79 is effective for the fiscal year ending September 30, 2017. The implementation of this statement did not have a material effect on the PSS's financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. The Statement is intended to provide clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. GASB Statement No. 80 is effective for the fiscal year ending September 30, 2017. The implementation of this statement did not have a material effect on the PSS's 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, 2017

(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. GASB Statement No. 81 will be effective for the fiscal year ending September 30, 2018. Management has not evaluated the impact that the implementation of this statement will have on the PSS's financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues*. This Statement addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 will be effective for the fiscal year ending September 30, 2018. Management has not evaluated the impact that the implementation of this statement will have on the PSS's financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations. GASB Statement No. 83 will be effective for the fiscal year ending September 30, 2019. Management has not evaluated the impact that the implementation of this statement will have on the PSS's financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB Statement No. 84 will be effective for reporting periods after December 15, 2018. Management has not evaluated the impact that the implementation of this statement will have on the PSS's financial statements.

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(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. The provisions of GASB Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the PSS’s financial statements.

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

G. Use of Estimates

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

(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 2017 include the following elements:

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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	\$ 106,266,277
Accumulated depreciation	<u>(29,817,207)</u>
Net capital assets	76,449,070
Accrual for liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Compensated absences	<u>(3,094,579)</u>
Total adjustments	<u>\$ 73,354,491</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 2017 pertain to the following:

Payment for prior year utilities - CUC long term debt	\$ 2,736,202
Change in compensated absences	(78,307)
Capital outlay expenditures recorded in the Statement of Activities	1,222,085
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the Statement of Activities but not in the Fund Statements.	<u>(1,603,404)</u>
Total adjustments	<u>\$ 2,276,576</u>

(3) Detail Notes on all Funds

Cash and Cash Equivalents

For purposes of the Statement of Net Position, cash is defined as amounts in demand deposits as well as short-term investments with a maturity date within three months from the date acquired. As of September 30, 2017, aggregate carrying amounts deposited with Federal Deposit Insurance Corporation (FDIC) insured banks totaled \$11,555,076. From these deposits, \$500,000 is subject to coverage by FDIC; \$101,187 is deposited in a financial institution not subject to FDIC coverage and the remaining balance exceeds insurable limits. PSS requires collateralization of bank accounts, and the amounts in excess of insurable limits are collateralized by securities owned by the banks. PSS has not experienced any losses on these deposits.

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(3) Detail Notes on all Funds, Continued

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, 2017 consist of the following:

Travel advances	\$ 349,183
Advances to vendors	2,620,347
Others	<u>122,144</u>
Total other receivables	3,091,674
Allowance	<u>(196,816)</u>
Other receivables, net	<u>\$ 2,894,858</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 activities for the year ended September 30, 2017 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	59,850,101	991,993	-	60,842,094
Vehicles	5,334,001	63,882	-	5,397,883
Others	<u>2,714,179</u>	<u>166,210</u>	-	<u>2,880,389</u>
Total	<u>67,898,281</u>	<u>1,222,085</u>	-	<u>69,120,336</u>
Less accumulated depreciation:				
Building and improvements	20,588,354	1,460,537	-	22,048,891
Vehicles	5,071,512	92,599	-	5,164,111
Others	<u>2,553,937</u>	<u>50,268</u>	-	<u>2,604,205</u>
Total	<u>28,213,803</u>	<u>1,603,404</u>	-	<u>29,817,207</u>
Capital assets being depreciated, net	<u>39,684,478</u>	<u>(381,319)</u>	-	<u>39,303,158</u>
Capital assets, net	<u>76,332,328</u>	<u>(381,319)</u>	-	<u>75,951,008</u>
Construction in progress	<u>498,061</u>	-	-	<u>498,061</u>
Total	<u>\$ 76,830,389</u>	<u>\$ (381,319)</u>	<u>\$ -</u>	<u>\$ 76,449,070</u>

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

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(3) Detail Notes on all Funds, Continued

Retirement Plan

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

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

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

Only 30 employees of the PSS did not voluntarily terminate membership in the DB Plan and PSS contributed \$435,506, \$446,606 and \$423,015 to the NMISF during the years ended September 30, 2017, 2016 and 2015, respectively.

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(3) Detail Notes on all Funds, Continued

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. PSS is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. PSS's recorded DC contributions for the years ended September 30, 2017, 2016 and 2015 were \$282,741, \$265,203 and \$267,863, respectively, equal to the required contributions for each year.

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

Unremitted Employer Contribution prior to September 30, 2013

The amount PSS recognized as payable to the Retirement fund prior to the creation of the Settlement Fund totaled \$26,902,270 including penalties as of September 30, 2013 and the amount due from PSS based on the actuarially determined rate including interest amounted to \$41,016,171. Pursuant to the Court Order, PSS only recognized a liability based on the percentage the Court ordered PSS to remit to the Fund.

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

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(3) Detail Notes on all Funds, Continued

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 \$46,991,874 for PSS' operational use for the fiscal year ended September 30, 2017.

During the year ended September 30, 2017, total utilities expense to CUC amounted to \$1,996,530.

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(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>9/30/16</u>	<u>Change</u>	<u>Balance</u> <u>9/30/17</u>	<u>Due in</u> <u>1 Year</u>	<u>Noncurrent</u>
Compensated absences	\$ 3,016,272	\$ 78,307	\$ 3,094,579	\$ 1,872,065	\$ 1,222,514
Long-term Debt – CUC	\$ 2,736,202	\$ (2,736,202)	\$ 0	\$ 0	\$ 0

PSS uses its general funds to liquidate its accrued compensated absences and to pay for the long-term debt to CUC. Payments will be drawn from the annual CNMI government appropriation.

(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, 2017.

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, 2017, PSS only has one type of deferred inflows of resources arising from grants received with restrictions.

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(5) Contingencies

CNMI Contributions

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

Financial and Compliance Audits

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

Lawsuits and Claims

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

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, 2017 is \$6.268 million.

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(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, \$2,202,181 of outstanding purchase orders and purchase commitments for which goods and services have not been received are not reported in the financial statements as of September 30, 2017.

(7) Risk Management

The CNMI government is a self-insured entity. The CNMI government has limited its general liability to individuals to \$100,000 by statute. For this reason, the CNMI government does not maintain any insurance on its buildings, or on its employees. At some future date, PSS may insure some of its assets. As an autonomous agency, PSS is not required to follow the CNMI Government's self-insurance policy. PSS has not experienced any losses for the year ended September 30, 2017.

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, 2017, 44.33% and 54.80% 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.

(9) Fair Value of Financial Instruments

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

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

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(10) Subsequent Events

PSS has evaluated subsequent events from October 1, 2017 through June 19, 2018, the date the financial statements were available to be issued.

PUBLIC SCHOOL SYSTEM

SUPPLEMENTAL INFORMATION

Year Ended September 30, 2017

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Combining Balance Sheets
Non-major Funds
For the Year Ended September 30, 2017

	Local CIP Fund ⁽¹⁾	Textbook Fund (15000)	GOB Fund (30000)	Indirect Cost Fund (40000)	Donation and Other Revenue Fund (42000)	Other Federal Fund (60000)	JROTC Army Fund (65000)	Federal Program Income Fund (66000)	Total Non-major Funds
<u>Assets:</u>									
Current Assets:									
Cash	\$ 2,735	\$ 110,927	\$ 1,075,771	\$ 1,139,586	\$ -	\$ -	\$ 790,000	\$ -	\$ 3,119,019
Receivable from Federal Agencies	-	-	-	-	-	341,132	-	-	\$ 341,132
Other receivables	8,588	-	-	-	16,858	-	-	-	\$ 25,446
Due from (to) other funds	-	-	28,626	-	792,081	792,265	-	62,913	\$ 1,675,885
Total assets	<u>\$ 11,323</u>	<u>\$ 110,927</u>	<u>\$ 1,104,397</u>	<u>\$ 1,139,586</u>	<u>\$ 808,939</u>	<u>\$ 1,133,397</u>	<u>\$ 790,000</u>	<u>\$ 62,913</u>	<u>\$ 5,161,482</u>
<u>Liabilities, Deferred Inflows and Fund Balances</u>									
Liabilities:									
Accounts payable and accrued expenses	-	-	-	-	-	-	-	-	-
Due from (to) other funds	<u>1,048,163</u>	<u>113,802</u>	<u>-</u>	<u>595,365</u>	<u>-</u>	<u>-</u>	<u>509,210</u>	<u>-</u>	<u>\$ 2,266,540</u>
Total liabilities	<u>\$ 1,048,163</u>	<u>\$ 113,802</u>	<u>\$ -</u>	<u>\$ 595,365</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 509,210</u>	<u>\$ -</u>	<u>\$ 2,266,540</u>
Deferred Inflows of Resources:									
Grants received	-	-	-	<u>585,920</u>	-	<u>1,997</u>	<u>280,790</u>	<u>41,423</u>	<u>910,130</u>
Fund Balances:									
Restricted	-	(2,875)	1,104,397	-	-	1,131,400	-	-	2,232,922
Assigned	-	-	-	-	808,939	-	-	-	808,939
Unassigned	<u>(1,036,840)</u>	<u>-</u>	<u>-</u>	<u>(41,699)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,490</u>	<u>(1,057,049)</u>
Total fund balances	<u>(1,036,840)</u>	<u>(2,875)</u>	<u>1,104,397</u>	<u>(41,699)</u>	<u>808,939</u>	<u>1,131,400</u>	<u>-</u>	<u>21,490</u>	<u>1,984,812</u>
<u>Total Liabilities, Deferred Inflows and Fund Balances</u>	<u>\$ 11,323</u>	<u>\$ 110,927</u>	<u>\$ 1,104,397</u>	<u>\$ 1,139,586</u>	<u>\$ 808,939</u>	<u>\$ 1,133,397</u>	<u>\$ 790,000</u>	<u>\$ 62,913</u>	<u>\$ 5,161,482</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, 2017

	Local CIP Fund ⁽¹⁾	Textbook Fund (15000)	GOB Fund (30000)	Indirect Cost Fund (40000)	Other Revenue Fund (42000)	Federal Fund (60000)	Army Fund (65000)	Program Income Fund (66000)	Total Non-major Funds
Revenues:									
Federal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,144,321	\$ 568,134	\$ 23,488	\$ 1,735,943
Local	-	-	-	-	869,121	-	-	-	869,121
Charges for services	-	-	-	766,030	-	-	-	-	766,030
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>766,030</u>	<u>869,121</u>	<u>1,144,321</u>	<u>568,134</u>	<u>23,488</u>	<u>3,371,094</u>
Expenditures:									
Instructional programs:									
Regular	-	-	-	-	297,092	-	-	-	297,092
Special	2,176	-	-	41,701	-	-	-	2,000	45,877
Co-curricular	-	-	-	-	6,995	12,921	568,134	-	588,050
Student services	21,379	-	-	-	-	-	-	-	21,379
Total instructional programs	<u>23,555</u>	<u>-</u>	<u>-</u>	<u>41,701</u>	<u>304,087</u>	<u>12,921</u>	<u>568,134</u>	<u>2,000</u>	<u>952,398</u>
Supporting services:									
General administration	-	-	-	766,029	78,319	-	-	-	844,348
School administration	-	-	-	-	7,470	-	-	-	7,470
Individual programs	-	-	-	-	-	-	-	-	-
Other	997,206	-	-	-	437,611	-	-	-	1,434,817
Total supporting services	<u>997,206</u>	<u>-</u>	<u>-</u>	<u>766,029</u>	<u>523,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,286,635</u>
Total Expenditures	<u>1,020,761</u>	<u>-</u>	<u>-</u>	<u>807,730</u>	<u>827,487</u>	<u>12,921</u>	<u>568,134</u>	<u>2,000</u>	<u>3,239,033</u>
Excess (deficiency) of revenues over expenditure	(1,020,761)	-	-	(41,700)	41,634	1,131,400	-	21,488	132,061
Fund balance (deficit), beginning of year	(16,079)	(2,875)	1,104,397	1	767,305	-	-	2	1,852,751
Fund balance (deficit), end of year	<u>\$ (1,036,840)</u>	<u>\$ (2,875)</u>	<u>\$ 1,104,397</u>	<u>\$ (41,699)</u>	<u>\$ 808,939</u>	<u>\$ 1,131,400</u>	<u>\$ -</u>	<u>\$ 21,490</u>	<u>\$ 1,984,812</u>

⁽¹⁾ Fund codes 17000, 18000 and 19000

See accompanying notes to basic financial statements.

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Schedule of Expenditures/Expense (By Natural Classification)
Year Ended September 30, 2017

	General Fund	Federal Fund	Non-Major Funds	Total Expenditures	Conversion	Total Expenses
Salaries and wages	\$ 27,379,077	\$ 9,461,590	\$ 574,425	\$ 37,415,092	\$ 78,307	\$ 37,493,399
Professional services	359,460	14,651,456	131,234	15,142,150	-	15,142,150
Employee benefits	4,940,592	1,575,489	106,180	6,622,261	-	6,622,261
Controlled assets	398,580	334,031	41,444	774,055	-	774,055
Travel	309,991	1,830,170	555,153	2,695,314	-	2,695,314
Books and instruction materials	5,145,291	3,642,910	164,725	8,952,926	-	8,952,926
Depreciation	-	-	-	-	1,603,404	1,603,404
Utilities	4,700,632	14,111	17,989	4,732,732	(2,736,202)	1,996,530
Supplies and materials	323,926	1,225,753	206,298	1,755,977	-	1,755,977
Rental	102,021	757,531	40,399	899,951	-	899,951
Repairs and maintenance	740,488	639,541	1,165,945	2,545,974	(1,222,085)	1,323,889
Indirect costs	-	926,039	28,850	954,889	-	954,889
Licenses and fees	19,957	394,590	8,785	423,332	-	423,332
Cleaning services	264,222	78,463	22,600	365,285	-	365,285
Communications	447,006	107,601	12,507	567,114	-	567,114
Miscellaneous	25,750	315,177	26,891	367,818	-	367,818
Fuel and lubricants	170,019	24,580	4,840	199,439	-	199,439
Dues and subscriptions	30,911	443,737	43,378	518,026	-	518,026
Security services	153,710	-	31,470	185,180	-	185,180
Printing and photocopying	107,294	163,253	10,457	281,004	-	281,004
Food items	75,647	25,054	13,321	114,022	-	114,022
Advertising	22,263	14,897	3,229	40,389	-	40,389
Recruitment and repatriation	4,438	4,413	13,297	22,148	-	22,148
Small tools and equipment	36,984	111,205	-	148,189	-	148,189
Freight and handling	10,968	15,540	842	27,350	-	27,350
Insurance	24,057	-	-	24,057	-	24,057
Furniture and fixtures <5,000	50,875	-	14,774	65,649	-	65,649
Bank charges	5,741	-	-	5,741	-	5,741
Total expenditures (page 22)	\$ 45,849,900	\$ 36,757,131	\$ 3,239,033	\$ 85,846,064	\$ (2,276,576)	\$ 83,569,488
					Total Expenses (page 20)	\$ 83,569,488

See accompanying notes to basic financial statements.

PUBLIC SCHOOL SYSTEM

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

Year Ended September 30, 2017

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands Public School System as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements and have issued our report thereon dated June 9, 2018.

Internal Control over Financial Reporting

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

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

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 2017-001 through 2017-004.

Compliance and Other Matters

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

PSS' Response to Findings

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

Purpose of this Report

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



Saipan, Commonwealth of the Northern Mariana Islands
June 19, 2018

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

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

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of the Northern Mariana Islands Public School System's (PSS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the PSS' major federal programs for the year ended September 30, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

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

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

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Opinion on Each Major Federal Program

In our opinion, the PSS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-005 that we consider to be significant deficiency.

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

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

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the PSS, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements. We issued our report thereon dated June 9, 2018 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 the audit requirements of the Uniform Guidance 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.



Saipan, Commonwealth of the Northern Mariana Islands
June 19, 2018

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

(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

Federal Grantor/Program Title	CFDA Number	Expenditures
<u>U.S. Department of Agriculture</u>		
Direct Program:		
National School Lunch Program	10.555	\$ 12,172,763
Total U.S. Department of Agriculture		<u>12,172,763</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Army JROTC	12.Unknown	568,134
Total U.S. Department of Defense		<u>568,134</u>
<u>U.S. Department of Education</u>		
Direct Program:		
Consolidated Grants to the Outlying Areas	84.403	11,882,472
Special Education - Grants to States (IDEA, Part B) Territories and Freely Associated States Education Grant Program	84.027	6,715,214
Special Education - Grants for Infants and Families	84.256	983,467
Striving Readers	84.181	431,306
	84.371	<u>6,637</u>
Total U.S. Department of Education		<u>20,019,096</u>
<u>U.S. Department of Transportation</u>		
Direct Program:		
Formula Grants for Other Than Urbanized Areas	20.509	<u>33,382</u>
Total U.S. Department of Transportation		<u>33,382</u>
Sub-total carried forward		<u>\$ 32,793,375</u>

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

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

(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

Federal Grantor/Program Title	CFDA Number	Expenditures
Sub-total brought forward		\$ 32,793,375
<u>U.S. Department of Health and Human Services</u>		
Direct Programs:		
Head Start	93.600	3,306,524
Personality Responsibility Education	93.092	380,428
Project Traditional Technology	93.612	165,991
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.079	11,863
Sub-total Direct Programs		3,864,806
Pass-Through the Government of the CNMI:		
Child Care	93.575	-
Total U.S. Department of Health and Human Services		3,864,806
<u>Corporation for National and Community Service</u>		
Direct Program:		
AmeriCorps	94.006	240,099
Total Corporation for National and Community Service		240,099
<u>U.S. Department of the Interior</u>		
Direct Program:		
Technical Assistance Programs	11.550	427,006
MHS Solar Project	15.875	315,450
Pass-through the CNMI Government:		
ABC		997,206
Compact impact	15.875	-
Total U.S. Department of the Interior		1,739,662
<u>U.S. Department of Homeland Security</u>		
Pass-through the CNMI Government		
FEMA Disaster Recovery - Typhoon Soudelor	97.unknown	147,425
Total U.S. Department of Homeland Security		147,425
Total expenditures		\$ 38,785,367

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

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

(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

Federal Grantor/Program Title	CFDA Number	Expenditures
Reconciliation:		
Expenditures Federal Fund		\$ 38,785,367
Expenditures included in nonmajor funds		-
Expenditures included in General Fund		-
Total expenditures		<u>\$ 38,785,367</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, 2017

(1) Scope of Review

The Public School System (PSS) was established as a public non-profit corporation by the Commonwealth of the Northern Mariana Islands (CNMI) Public Law No. 6-10, effective October 25, 1988 and began operations on October 1, 1988. All significant operations of PSS are included in the scope of the Uniform Guidance audit (the “Single Audit”). The U.S. Department of the Interior’s Office of the Inspector General has been designated as PSS’ cognizant agency for the Single Audit.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

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

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

b. Indirect Cost Allocation

PSS negotiated an indirect cost plan with the U.S. Department of Interior for fiscal year 2017. The approved rates are as follows:

Unrestricted	5.35%
Restricted rate	4.00%

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, 2017

SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' 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 auditors' report issued on compliance: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR § 200.516 (a)? 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, 2017

SECTION I – SUMMARY OF AUDITORS’ RESULTS, Continued

Federal Awards

Identification of major programs:

<u>CFDA Number</u>	<u>Description</u>	<u>Federal Expenditures</u>
84.403	Consolidated Grant to the Outlying Areas	\$ 11,882,472
84.027	Special Education Grants to States	6,715,214
93.600	Head Start	3,306,524
10.555	National School Lunch Program	<u>12,172,763</u>
Total Federal Expenditures-Major Programs		<u>\$ 34,076,973</u>
Percentage of total awards tested		88%

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

\$ 1,163,561
3% of the total awards expended

Auditee qualified as low-risk auditee

X yes ___ no

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2017-001, Human Resources

Finding type: Significant deficiency in Internal Control

Criteria:

Personnel records should have all the required documents pursuant to PSS regulation § 60-30.1-910. Employees should be paid pursuant to signed employment contracts and/or an approved notice of personnel action.

Condition:

The rate used in calculating the following payroll was not supported by an approved Notice of Personnel Action (NOPA).

<u>Pay period</u>	<u>Payment Date</u>	<u>Rate Used</u>	<u>NOPA Rate</u>	<u>Remarks</u>
4/16/2017-4/29/2017	5/11/2017	\$ 31.250	\$ 22.597	No updated NOPA to reflect rate change.
7/9/2017-7/22/2017	8/5/2017	\$ 31.250	\$ 22.597	No updated NOPA to reflect rate change.

Cause:

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

Effect:

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

**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, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2017-001, Human Resources, Continued

Recommendation:

PSS should ensure that all the required documents pursuant to PSS regulation §60-30.1-190 are properly completed and filed.

Employment contracts should be updated in a timely manner.

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, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2017-002, After-the-fact Ratification

Finding type: Significant deficiency in Internal Control

Criteria:

Purchase orders should be approved before actual services being performed or products are procured.

Condition:

Consolidated Grants:

For 2 or 3% of 55 purchase orders selected for testing, the vendor invoices show dates that were prior to the date of the purchase order as follows:

<u>No.</u>	<u>Reference</u>	<u>Date Paid</u>	<u>Invoice Date</u>	<u>Purchase Order Number</u>	<u>Purchase Order Date</u>	<u>Purchase Order Amount</u>
1	PV 260483	4/11/2017	6/28/2016	132268-OP	7/25/2016	\$ 26,126
2	PV 265860	7/20/2017	5/12/2017	139357-OP	7/14/2017	\$ 29,321

Cause:

A lack of compliance with established procurement policies and procedures.

Effect:

PSS is not in compliance with its procurement policies and procedures.

Recommendation:

PSS should adhere to its established policies and procedures and should strengthen internal control monitoring procedures over its procurement activities to prevent and detect potential circumvention of such policies and procedures.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2017-003, Travel Advances

Finding type: Significant deficiency in Internal Control

Criteria:

Travel advances and liquidation should be pursuant to PSS Travel and Commuting Regulations. PSS commuting policy states that all official commutes shall be initiated and authorized with an approved Commute Form.

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.

Condition:

- a. For 1 or 1% of 90 travel authorizations selected for testing, the official commute form has no date.

Cause:

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

Effect:

The weakness in the operation 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.

**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, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2017-004, Travel Advance Liquidation

Finding type: Significant deficiency in Internal Control

Criteria:

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

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

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

Condition:

During the test of PSS compliance with the travel and commuting policies we noted that one (1) or 1% of ninety (90) travel authorizations selected was not liquidated within the prescribed period.

Cause:

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

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2017-004, Travel Advance Liquidation, Continued

Effect:

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

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

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

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

Recommendation:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2017-005 Procurement and Suspension and Debarment-After the Fact Justification

Grantor: Department of Education
Program Name: Consolidated Grants to the Outlying Areas
CFDA No.: 84.403
Award No.: S403A160008
Award Year: 2016-2017
Repeat Finding From Prior Audit? No
Finding Type: Significant deficiency

Criteria:

Purchase orders should be approved before actual services being performed or products are procured.

Condition:

For 2 or 3% of 55 purchase orders selected for testing, the vendor invoices show dates that were prior to the date of the purchase order as follows:

<u>No.</u>	<u>Reference</u>	<u>Date Paid</u>	<u>Invoice Date</u>	<u>Purchase Order Number</u>	<u>Purchase Order Date</u>	<u>Purchase Order Amount</u>
1	PV 260483	4/11/2017	6/28/2016	132268-OP	7/25/2016	\$ 26,126
2	PV 265860	7/20/2017	5/12/2017	139357-OP	7/14/2017	\$ 29,321

Cause:

There is a lack of internal control monitoring to ensure compliance with established procurement policies and procedures.

Effect:

PSS is not in compliance with its procurement policies and procedures.

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

**Finding 2017-005 Procurement and Suspension and Debarment-After the Fact Justification,
Continued:**

Grantor:	Department of Education
Program Name:	Consolidated Grants to the Outlying Areas
CFDA No.:	84.403
Award No.:	S403A160008
Award Year:	2016-2017
Repeat Finding From Prior Audit?	No
Finding Type:	Significant deficiency

Recommendation:

PSS should adhere to its established policies and procedures and should strengthen internal control monitoring procedures over its procurement activities to prevent and detect potential circumvention of such policies and procedures.



COMMONWEALTH of the NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
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STUDENT REPRESENTATIVE
 Pionnah Rosej Gregorio

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

A. FINANCIAL STATEMENT FINDINGS

Reference No.	Findings	Status
2015-002	Travel Advances Liquidation	Not Corrected. Similar condition noted in Finding Nos. 2016-002, 2017-004.
2015-004	Human Resources	Not Corrected. Similar condition noted in Finding Nos. 2016-003, 2017-001.
2016-001	Travel Authorization	Resolved.
2016-002	Travel Advance Liquidation	Not Corrected. Similar condition noted in Finding No. 2017-004,
2016-003	Human Resources	Not Corrected. Similar condition noted in Finding No. 2017-001,

STUDENTS FIRST

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

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

(A Component Unit of the CNMI Government)

Summary of Unresolved Questioned Costs
Year Ended September 30, 2016

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference No.	Findings	Status
2015-005	Liquidation of Travel Advances	Resolved.
2015-006	Human Resources	Resolved
2015-007	Health Certificate	Resolved.
2016-004	Travel Advance Liquidation	Resolved.
2016-005	Sole Source Justification	Resolved.
2016-006	Health Certificate	Resolved.

Finding No. 2017-001, Human Resources

Auditee Response:

Contact Person – Lucretia Borja, Human Resources Officer
Contact –lucretia.borja@cnmipss.org
Completion Date – Corrective actions have been implemented

HRO (Human Resource Officer) will continue to download the JDE personnel data report on a monthly basis. HRO will continue to filter the JDE personnel data report for the purpose of monitoring the “next review date” (expiration date).

HRO will continue to send email reminders to both employees and their supervisors on required documents for contract renewal and upon receipt of all required documents for contract renewal it will continue to process contract renewal.

HRO will continue to provide monthly data report updates to supervisors and report on timeline of submission of documents necessary to process contract renewals. HRO will also provide to the supervisors the Monthly Contract Renewals Summary Report to ensure that they are reminded of which employees have yet to submit required documents.

HRO will notify the applicant selected for hire of the requirement for medical certificate submission. The notification will be sent via email with the Letter of Intent to Offer Employment. HRO will monitor the submission of medical certificates to ensure that it is submitted at the point of contract review and signature.

No contract without the required medical certificate will be considered valid and it will not be filed. Employment contracts will remain in the file cart labeled “Pending Medical Certificate” until the document is received. The administrative assistant will review each completed contract to ensure that the medical certificate has been received for that contract before filing.

Finding No. 2017-002, After-the-fact Ratification

Auditee Response:

Contact Person – Kimo Rosario, Procurement and Supply Officer
Contact –kimo.rosario@cnmipss.org
Completion Date – Corrective actions have been implemented

Item No. 01: The finding should be removed and/or the audit sample ("file") replaced because this transaction occurred outside the audit period (FY 2017 - October 1, 2016 - September 30, 2017).

Item No. 02: The finding stays; however, we feel that it should be downgraded to a controlled deficiency for the following reasons:

1. Procured products were determined complete by the principal on July 19, 2017 and after the purchase order was approved, processed, and released.

2. Payment to vendor was not made until July 21, 2017 after the PO was processed and released.

Furthermore, our office respectfully requests that the cited CAUSE, "lack of internal control monitoring," be amended to absolve the Office and Procurement and Supply from responsibility because: 1. Our office had no knowledge that the services were being procured by the school and prior to the processing and release of the purchase order; 2. Our office did not advise the affected school to solicit and employ the services prior to the approval of a purchase order; and, 3. The reasons stated above, which clearly show that payment to vendor was not made until a purchase order was in place and all items/services were accounted for and rendered.

However, in response to the finding, we will continue to exercise strict controls over the processing of purchase orders, disallowing any purchase order to be issued for services that have been performed and for goods that have been received, if any, after-the-fact.

Finding No. 2017-003, Travel Advance

Auditee Response:

Contact Person – Christopher Ching, Director of Finance

Contact – christopher.ching@cnmipss.org

Completion Date – Corrective actions have been implemented

PSS Travel section has been advised on this audit finding and it will adopt a stricter procedure not to process any travel authorization requests with incomplete attachments and will return the documents to the requester for completion of required documents.

Finding No. 2017-004, Travel Advance Liquidation

Auditee Response:

Contact Person – Christopher Ching, Director of Finance

Contact – christopher.ching@cnmipss.org

Completion Date – Corrective actions have been implemented

PSS Finance Travel section has been notified and has already begun utilizing and issuing the notices of discrepancy for fiscal year 2018. Payroll deductions are then immediately 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.

Finally, the audit report states that late travel liquidations “may” be subject to tax pursuant to the IRS. However, from PSS’ perspective this is not necessary, as PSS recovers funds advanced to non-compliant travelers through payroll deduction, which is what is required by PSS travel regulations. PSS travel regulations provide remedies for collecting advanced travel funds.

Finding No. 2017-005, After-the-fact Ratification

Auditee Response:

Contact Person – Kimo Rosario, Procurement and Supply Officer

Contact –kimo.rosario@cnmipss.org

Completion Date – Corrective actions have been implemented

Item No. 01: The finding should be removed and/or the audit sample ("file") replaced because this transaction occurred outside the audit period (FY 2017 - October 1, 2016 - September 30, 2017).

Item No. 02: The finding stays; however, we feel that it should be downgraded to a controlled deficiency for the following reasons:

1. Procured products were determined complete by the principal on July 19, 2017 and after the purchase order was approved, processed, and released.

2. Payment to vendor was not made until July 21, 2017 after the PO was processed and released.

Furthermore, our office respectfully requests that the cited CAUSE, "lack of internal control monitoring," be amended to absolve the Office and Procurement and Supply from responsibility because: 1. Our office had no knowledge that the services were being procured by the school and prior to the processing and release of the purchase order; 2. Our office did not advise the affected school to solicit and employ the services prior to the approval of a purchase order; and, 3. The reasons stated above, which clearly show that payment to vendor was not made until a purchase order was in place and all items/services were accounted for and rendered.

However, in response to the finding, we will continue to exercise strict controls over the processing of purchase orders, disallowing any purchase order to be issued for services that have been performed and for goods that have been received, if any, after-the-fact.