

PUBLIC SCHOOL SYSTEM

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

Year Ended September 30, 2018

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS
September 30, 2018

<u>Items</u>	<u>Page No.(s)</u>
I. FINANCIAL SECTION	
A. Independent Auditor’s Report on Financial Statements	1-3
Management’s Discussion & Analysis	4-17
Statement of Net Position	18
Statement of Activities	19
Balance Sheet – Governmental Funds	20
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance with the District-wide Statement of Activities	22
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Budget and Actual (GAAP Basis) – General Fund	23
Notes to Financial Statements	24-43
B. Supplementary Information	
Combining Balance Sheets – Non-major Funds	44
Combining Statements of Revenues, Expenditures and Changes in Fund Balance – Non-major Funds	45
Schedule of Expenditures/Expense (By Natural Classification)	46

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

TABLE OF CONTENTS, Continued
September 30, 2018

<u>Items</u>	<u>Page No.(s)</u>
II. REPORTS ON INTERNAL CONTROL AND COMPLIANCE	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47-48
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required By Uniform Guidance	49-51
Schedule of Expenditures of Federal Awards	52-54
Notes to the Schedule of Expenditures of Federal Awards	55
Schedule of Findings and Questioned Costs	
Section I – Summary of Auditors’ Results	56-57
Section II – Financial Statement Findings	58-60
Section III – Federal Awards Findings and Questioned Costs	61-62
III. SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	63-64
IV. CORRECTIVE ACTION PLAN	65

BURGER & COMER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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, 2018, 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, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2019, on our consideration of the PSS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PSS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PSS' internal control over financial reporting and compliance.



BURGER & COMER, P.C.

Saipan, Commonwealth of the Northern Mariana Islands

June 30, 2019



COMMONWEALTH of the NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
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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, 2018. 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 2018, PSS’ net position amounted to \$78,557,059, a decrease of \$1,249,286 or 2%, from the \$79,806,346 in fiscal year 2017 net position. This decrease was primarily due to excess expenses over revenues. PSS total expenses for fiscal year 2018 amounted to \$91,679,195 while aggregate support from Federal Agencies, CNMI appropriations and other revenues amounted to \$90,429,909.

PSS’ net position includes investment in capital assets, net of accumulated depreciation, of \$77,437,839, restricted for special purpose of \$2,453,809 and deficit of \$1,334,589. The deficit is due to noncurrent liabilities that are to be funded by appropriations from the CNMI government.

PSS’ enrollment for school year 2017-2018 was 10,179 students. There was a decrease of 41 students from 10,220 students for school year 2016-2017.

STUDENTS FIRST

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

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 are the Governmental-fund Financial Statements, which are 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

	2018	2017	2016
Current assets	9,593,989	11,012,533	8,793,024
Capital improvement projects	-	-	-
Capital assets, net	77,437,839	76,449,070	76,830,389
Total assets	87,031,828	87,461,603	85,623,413
<i>Change against prior year - dollar amount</i>	<i>(429,775)</i>	<i>1,838,190</i>	<i>-595,497</i>
<i>Change against prior year - percent</i>	<i>0%</i>	<i>2%</i>	<i>-1%</i>
Current liabilities	5,864,671	5,510,807	5,087,668
Noncurrent liabilities	1,674,852	1,222,514	3,547,050
Total liabilities	7,539,523	6,733,321	8,634,718
<i>Change against prior year - dollar amount</i>	<i>806,202</i>	<i>(1,901,397)</i>	<i>(813,751)</i>
<i>Change against prior year - percent</i>	<i>12%</i>	<i>-22%</i>	<i>-8%</i>
Deferred inflows of resources	935,246	921,936	954,586
<i>Change against prior year - dollar amount</i>	<i>13,310</i>	<i>(32,650)</i>	<i>(142,252)</i>
<i>Change against prior year - percent</i>	<i>1%</i>	<i>-3%</i>	<i>-12%</i>
Investment in capital assets and capital improvement projects	77,437,839	76,449,070	76,830,389
Restricted for special purpose	2,453,809	3,017,788	2,040,367
Unassigned (Deficit)	(1,334,589)	339,488	(2,836,647)
Net position	78,557,059	79,806,346	76,034,109
<i>Change against prior year - dollar amount</i>	<i>(1,249,287)</i>	<i>3,772,237</i>	<i>360,506</i>
<i>Change against prior year - percent</i>	<i>-2%</i>	<i>5.0%</i>	<i>0.5%</i>

- Current assets of \$9,593,989 as of September 30, 2018 decreased by \$1,418,546 or 12% compared to current assets \$11,012,533 as of September 30, 2017.
- The increase in capital assets is primarily due to major expenditures attributed to construction projects.
- Current liabilities of \$5,864,671 as of September 30, 2018 increased by \$353,864 or 6% compared to \$5,510,817 as of September 30, 2017 primarily due to the purchase of instructional materials and capital projects from various vendors.
- Deferred inflows of resources pertain 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 2018, PSS' net position is at \$78,557,059, net of the \$1,334,589 deficit. The deficit is primarily due to pending legislation amounting to \$3.7 million in supplemental funds for the fiscal year that was not reported in the financial statements.

Condensed Statements of Activities

	2018	2017	2016
Revenues			
Program Revenues	41,566,100	39,480,730	34,968,066
General revenues	48,863,809	47,860,995	36,967,084
Total revenues	90,429,909	87,341,725	71,935,150
<i>Change against prior year - dollar amount</i>	3,088,184	15,406,575	2,375,320
<i>Change against prior year - percent</i>	4%	21%	0%
Expense:			
Instruction	82,309,467	75,704,621	64,980,915
Support Services	9,369,728	7,864,867	7,280,121
Total expenses	91,679,195	83,569,488	72,261,036
<i>Change against prior year - dollar amount</i>	8,109,707	11,308,452	5,776,449
<i>Change against prior year - percent</i>	10%	16%	9%
Change in net position	(1,249,286)	3,772,237	(325,886)
Prior year restatement	-	-	-
Net position, beginning	79,806,345	76,034,109	76,359,995
Net position, ending	78,557,059	79,806,345	76,034,109
<i>Change against prior year - dollar amount</i>	(1,249,286)	3,772,236	(325,886)
<i>Change against prior year - percent</i>	-2%	5.0%	-0.04%

- The overall increase in revenues and related expenses is due to increase in CNMI appropriations by \$1,002,814 and increase in federal grants received by \$2,085,368. A more detailed revenues and expenses discussion follows.

Revenues

	2018	2017	Difference	% Change
Program revenues				
Charges for Services	\$ 882,369	\$ 766,030	\$ 116,339	15%
Grants and contributions	40,683,731	38,714,700	1,969,030	5%
Total program revenues	41,566,100	39,480,730	2,085,369	5%
General revenues				
CNMI appropriations	48,569,262	46,991,874	1,577,388	3%
Miscellaneous	294,547	869,121	-574,574	-66%
Total general revenues	48,863,809	47,860,995	1,002,814	2%
Total revenues	90,429,909	87,341,725	3,088,183	4%
	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	0.13
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%

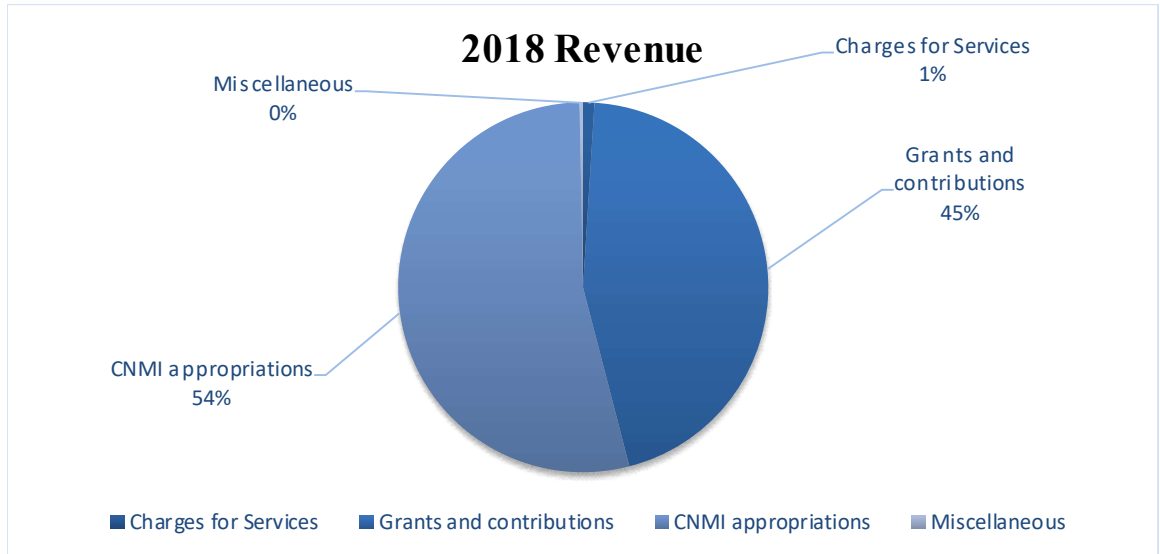
Total revenues for fiscal year 2018 were \$90,429,909, a \$3,088,184 or 4% increase from fiscal year 2017. The increase in 2018 revenue is primarily due to increase in revenues from federal grants and CNMI appropriations.

The increase in federal grants received is primarily from the U.S Department of Education Consolidated grants. PSS expended \$14,363,779 for this grant in fiscal year 2018, a \$2,481,307 increase from \$11,882,472 in fiscal year 2017.

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.



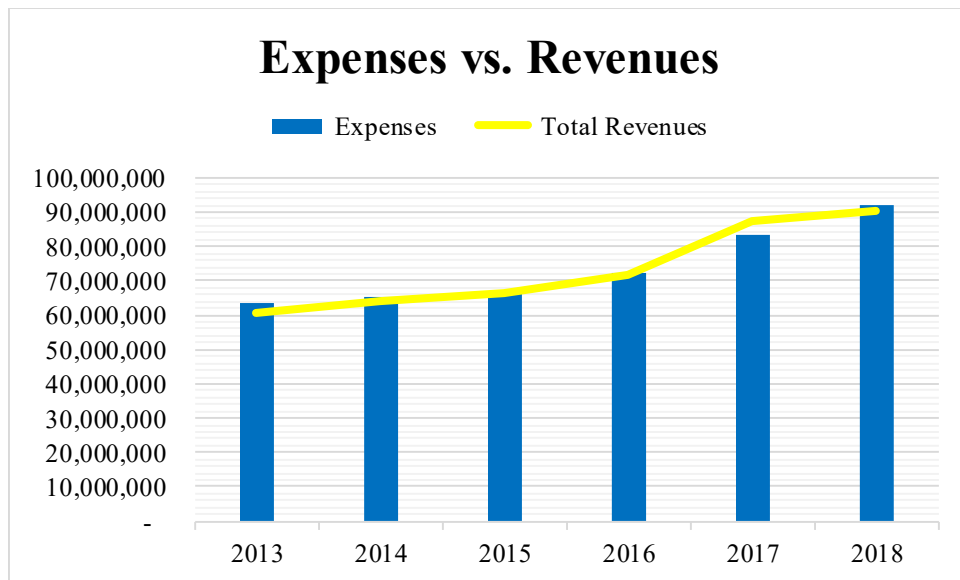
Expenses

Total district-wide expenses by function are as follows:

	2018	2017	Difference	% Change
Instruction:				
Regular	\$ 50,671,313	\$ 45,272,403	\$ 5,398,910	12%
Special	12,561,234	12,533,410	27,824	0%
Co-curricular	4,548,789	9,220,585	-4,671,796	-51%
Student services	14,528,131	8,678,223	5,849,908	67%
Total instruction expenses	82,309,467	75,704,621	6,604,846	9%
Support services:				
General administration	3,838,113	604,952	3,233,161	534%
School administration	2,060,478	2,514,508	(454,030)	-18%
Other support	911,663	3,134,115	(2,222,452)	-71%
Individual programs	-	7,888	(7,888)	-100%
Depreciation - unallocated	2,559,474	1,603,404	956,070	60%
Total Support services expenses	9,369,728	7,864,867	1,504,861	19%
Total Expenses	\$ 91,679,195	\$ 83,569,488	\$ 8,109,707	10%
<hr/>				
	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%

Total expenses in 2018 increased by \$8,109,707 or 10% as compared to fiscal year 2017. The increase in fiscal year 2018 expenses is primarily due to increase in general regular and student services expenses related to compensation. The expenses for regular instruction increased by \$6,604,846, primarily due to increase in total instructional expenditures used to improve the quality of instruction and compensation. Furthermore, the expense for support services increased by \$1,504,861, primarily due to increase in compensation.

Total expenses in 2017 increased by \$11,308,452, or 16% as compared to fiscal year 2016. The increase in fiscal year 2017 expense is primarily due to increase in total instructional expenditures used to improve the quality of instruction.



	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Expenses	63,762,350	65,372,620	66,484,580	72,261,036	83,569,488	91,679,195
Total Revenues	60,559,800	64,298,590	66,673,910	71,935,150	87,341,725	90,429,908

The chart above shows the relationship of revenues and expenses for the past six years. Except for fiscal year 2015 and 2017, expenses exceeded revenues from 2013-2014, 2016, and the current fiscal year.

FUND ANALYSIS

	<u>General Fund</u>	<u>Federal Fund</u>	<u>Non - Major Fund</u>	<u>Total</u>
Fund balance, beginning of year	3,782,177	684,866	1,984,812	6,451,855
Fund balance, end of year	<u>3,083,663</u>	<u>684,866</u>	<u>973,555</u>	<u>4,742,084</u>
Change in fund balance	<u>(698,514)</u>	<u>-</u>	<u>(1,011,257)</u>	<u>(1,709,771)</u>
Percentage Change	-18%	0%	-51%	-27%

The Fund balance decreased by \$1,709,771 to \$4,742,084 as of September 30, 2018.

Of the \$4,742,084, \$2,453,809 or 51% are restricted for specific purpose by grantors and donor, \$438,208 or 9% are assigned for specific programs approved by the Board of Education and \$1,850,067 or 40% are unassigned.

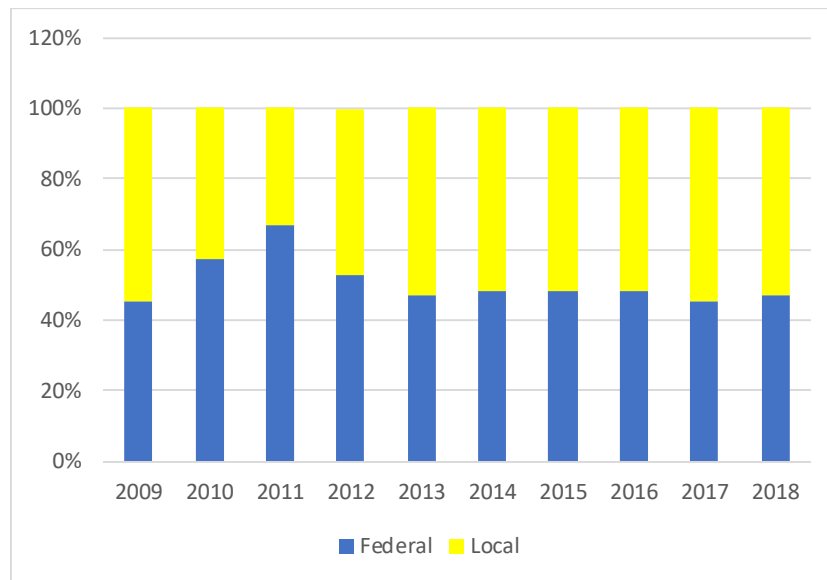
BUDGETARY ANALYSIS

	General Fund				Variance Favorable (Unfavorable)
	Budget			Actual	
	Original	Revision	Final		
Expenditures:					
Personnel	\$ 32,000,000	\$ 7,200,000	\$ 39,200,000	\$ 40,155,835	\$ (955,835)
All other	<u>4,565,826</u>	<u>4,800,000</u>	<u>9,365,826</u>	<u>9,316,846</u>	<u>(48,980)</u>
Total expenditures	<u>36,565,826</u>	<u>12,000,000</u>	<u>48,565,826</u>	<u>49,472,681</u>	<u>(906,855)</u>
Revenues:					
CNMI appropriation	<u>36,565,826</u>	<u>12,000,000</u>	<u>48,565,826</u>	<u>48,569,262</u>	<u>3,436</u>
Excess of expenditures and other financing sources over revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (903,419)</u>	<u>\$ (903,419)</u>
Reconciliation of Budget to GAAP Basis					
2018 Budget					
Appropriations				\$ 48,565,826	
2018 Expenditures					
Actual (GAAP)				<u>49,472,681</u>	
Variance					\$ <u>(906,855)</u>

PSS resulted in an unfavorable variance of \$906,855 for fiscal year 2018.

Federal and Local Budget Review

Year	Total	Federal		Local	
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%
2018	91,914,180	43,348,354	47%	48,565,826	53%



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, 2018, 2017 and 2016 were \$77,437,839, \$76,449,070 and \$76,830,389, respectively. Depreciation expense for the years ended September 30, 2018, 2017 and 2016 were \$2,559,474, \$1,603,404 and \$1,676,509, respectively.

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

FUTURE PLANS AND ECONOMIC OUTLOOK

For fiscal year 2018, PSS received \$48.5 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 however we expect local appropriations to decrease the following fiscal year as the island recovers from the devastation caused by Super Typhoon Yutu. Decreases in anticipated funding will result in hiring less employees and concentrate spending on hazard mitigation and permanent repair work of PSS infrastructure.

In addition, in 2017, 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. As a result of Super Typhoon Yutu having extreme impacts on the economy, PSS expects a decrease in funding from the central government and this will be supplemented by federal grants that are available specifically to communities who have been struck with a disaster.

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 be 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 51% of our graduating seniors plan to attend college, 13% enlist in the armed services and 16% 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, 2018

Assets

Current assets:

Cash and cash equivalents	\$ 6,265,824
Receivables from the CNMI Government	351,056
Receivables from Federal agencies	1,548,465
Other receivables, net	<u>1,428,644</u>
Total current assets	<u>9,593,989</u>

Noncurrent assets:

Capital assets, net	<u>77,437,839</u>
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Total Assets	<u>\$ 87,031,828</u>
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Liabilities

Current liabilities:

Accounts payable and accrued expenses	3,916,659
Compensated absences due in one year	<u>1,948,012</u>
Total current liabilities	<u>5,864,671</u>

Noncurrent liabilities:

Compensated absences	<u>1,674,852</u>
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Total noncurrent liabilities	<u>1,674,852</u>
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Total Liabilities	<u>7,539,523</u>
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Deferred Inflows of Resources

Grants received	<u>935,246</u>
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Net Position

Investment in:

Capital assets	77,437,839
Restricted for special purpose	2,453,809
Unassigned	<u>(1,334,589)</u>

Net Position	<u>78,557,059</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 87,031,828</u>
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See accompanying notes to basic financial statements.

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

(A Component Unit of the CNMI Government)

Statement of Activities
For the Year Ended September 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction:				
Regular	\$ 50,671,313	\$ 882,369	\$ 16,517,074	\$ (33,271,870)
Student services	14,528,131	-	13,309,580	(1,218,551)
Special	12,561,234	-	9,396,667	(3,164,567)
Co-curricular	4,548,789	-	287,336	(4,261,453)
Total instruction	82,309,467	882,369	39,510,657	(41,916,441)
Support services:				
Other	911,663	-	1,103,524	191,861
School administration	2,060,478	-	69,550	(1,990,928)
General administration	3,838,113	-	-	(3,838,113)
Depreciation - unallocated	2,559,474	-	-	(2,559,474)
Total support services	9,369,728	-	1,173,074	(8,196,654)
Total governmental activities	\$ 91,679,195	\$ 882,369	\$ 40,683,731	(50,113,095)
				48,569,262
				294,547
				48,863,809
				(1,249,286)
				79,806,345
				\$ 78,557,059

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, 2018

	General Fund	Federal Fund	Non-major Funds	Total
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 4,085,307	\$ 1,484,273	\$ 696,244	\$ 6,265,824
Receivables from CNMI	351,056	-	-	351,056
Receivables from Federal agencies		1,350,120	198,345	1,548,465
Other receivables	992,038		436,606	1,428,644
Due from (to) other funds	919,894	(1,485,694)	565,800	-
TOTAL ASSETS	\$ 6,348,295	\$ 1,348,699	\$ 1,896,995	\$ 9,593,989
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
Liabilities:				
Accounts payable and accrued expenses	\$ 3,264,632	\$ 652,027	\$ -	\$ 3,916,659
Total liabilities	3,264,632	652,027	-	3,916,659
Deferred Inflows of Resources:				
Grants received	-	11,806	923,440	935,246
Total deferred inflows of resources	-	11,806	923,440	935,246
Fund Balances:				
Restricted	-	684,866	1,768,943	2,453,809
Assigned	-	-	438,208	438,208
Unassigned	3,083,663	-	(1,233,596)	1,850,067
Total fund balances	3,083,663	684,866	973,555	4,742,084
Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 6,348,295	\$ 1,348,699	\$ 1,896,995	
Reconciliation of fund balance of governmental funds to net position - governmental activities:				
Fund balances- governmental funds				4,742,084
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.				
Cost of capital assets			\$ 109,814,520	
Accumulated depreciation			(32,376,681)	77,437,839
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				(3,622,864)
Net position - governmental activities				\$ 78,557,059

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, 2018

	General Fund	Federal Fund	Non-major Funds	Total
Revenues:				
Federal	\$ 204,905	\$ 39,580,206	\$ 898,619	\$ 40,683,730
Local	-	-	294,547	294,547
CNMI appropriations	48,569,262	-	-	48,569,262
Charges for services	-	-	882,369	882,369
Total revenues	<u>48,774,167</u>	<u>39,580,206</u>	<u>2,075,535</u>	<u>90,429,908</u>
Expenditures:				
Instructional programs:				
Regular	35,280,658	16,517,073	297,798	52,095,529
Student services	2,477,291	13,309,580	-	15,786,871
Special	3,156,705	9,396,667	7,863	12,561,235
Co-curricular	3,166,832	287,336	1,094,622	4,548,790
Total instructional programs	<u>44,081,486</u>	<u>39,510,656</u>	<u>1,400,283</u>	<u>84,992,425</u>
Supporting services:				
Other	436,660	-	812,003	1,248,663
School administration	1,990,928	69,550	-	2,060,478
General administration	2,963,607	-	874,506	3,838,113
Individual programs	-	-	-	-
Total supporting services	<u>5,391,195</u>	<u>69,550</u>	<u>1,686,509</u>	<u>7,147,254</u>
Total expenditures	<u>49,472,681</u>	<u>39,580,206</u>	<u>3,086,792</u>	<u>92,139,679</u>
Excess (Deficiency) of revenues over expenditures and other financing sources	(698,514)	-	(1,011,257)	(1,709,771)
Fund balance, beginning	<u>3,782,177</u>	<u>684,866</u>	<u>1,984,812</u>	<u>6,451,855</u>
Fund balance, ending	<u>\$ 3,083,663</u>	<u>\$ 684,866</u>	<u>\$ 973,555</u>	<u>\$ 4,742,084</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, 2018

Total net change in fund balances - governmental funds	\$ (1,709,771)
Amounts reported for governmental activities in the statement of activities are different because of:	
Change in compensated absences	(528,285)
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statements of activities. This is the amount by which capital outlays exceed (are less than) depreciation in the period.	
Capital outlays	\$ 3,548,244
Depreciation expense	<u>(2,559,474)</u> <u>988,770</u>
Total change in net position	\$ <u>(1,249,286)</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, 2018

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
Expenditures:					
Personnel	\$ 32,000,000	\$ 7,200,000	\$ 39,200,000	\$ 40,155,835	\$ (955,835)
All other	<u>4,565,826</u>	<u>4,800,000</u>	<u>9,365,826</u>	<u>9,316,846</u>	<u>48,980</u>
Total expenditures	<u>36,565,826</u>	<u>12,000,000</u>	<u>48,565,826</u>	<u>49,472,681</u>	<u>(906,855)</u>
Revenues:					
CNMI appropriation	<u>36,565,826</u>	<u>12,000,000</u>	<u>48,565,826</u>	<u>48,569,262</u>	<u>3,436</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (903,419)</u>	<u>\$ (903,419)</u>
Reconciliation of Budget to GAAP Basis					
2018 Budget					
Appropriations				\$ 48,565,826	
2018 Expenditures					
Actual (GAAP)				<u>49,472,681</u>	
Variance				<u>\$ (906,855)</u>	

See accompanying notes to basic financial statements.

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

Notes to the Basic Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

Notes to the Basic Financial Statements
September 30, 2018

(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, 2018 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, 2018

(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, 2018

(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, 2018

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

The amounts reported as committed as of September 30, 2018 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, 2018

(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, 2018 was \$3,622,864. 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, 2018

(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
(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2018

(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, 2018 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. 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. The implementation of this statement did not have a material effect on the PSS's financial statements.

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 is effective for the fiscal year ended September 30, 2018. The implementation of this statement did not have a material effect 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*.

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

Notes to the Basic Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, continued

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 is effective for the fiscal year ending September 30, 2018. The implementation of this statement did not have a material effect 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.

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. 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, 2018

(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, continued

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

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. This Statement also requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debts agreements related to significant events of default with finance related consequences, termination events, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This Statement is effective for reporting periods beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on PSS's financial statements.

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

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

Notes to the Basic Financial Statements
September 30, 2018

(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, continued

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

GASB Statement No. 90, *Majority Equity Interest, an Amendment of GASB Statements No. 16 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. This Statement, effective for reporting periods beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on PSS's financial statements

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.

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2018

(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 2018 include the following elements:

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	\$ 109,814,520
Accumulated depreciation	<u>(32,376,681)</u>
Net capital assets	77,437,839

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>(3,622,864)</u>
Total adjustments	\$ <u>73,814,975</u>

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

The governmental statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the district-wide statement of activities.

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

Notes to the Basic Financial Statements
September 30, 2018

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

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

The total adjustments for 2018 pertain to the following:

Increase in compensated absences liability	\$ 528,285
Capital outlay expenditures recorded in the Fund Statements but not in the Statement of Activities	(3,548,243)
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the Statement of Activities but not in the Fund Statements.	<u>2,559,474</u>
Total adjustments	\$ <u>(460,484)</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, 2018, aggregate carrying amounts deposited with Federal Deposit Insurance Corporation (FDIC) insured banks totaled \$5,606,570. From these deposits, \$500,000 is subject to coverage by FDIC; \$101,147 is deposited in a financial institution not subject to FDIC coverage and the remaining balance exceeds insurable limits. PSS requires collateralization of bank accounts, and the amounts in excess of insurable limits are collateralized by securities owned by the banks. PSS has not experienced any losses on these deposits.

Accounts Receivable

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

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

Notes to the Basic Financial Statements
September 30, 2018

(3) Detail Notes on all Funds, Continued

Other Receivables

Other receivables as of September 30, 2018 consist of the following:

Travel advances	\$ 379,318
Advances to vendors	712,814
Others	<u>533,328</u>
Total other receivables	1,625,460
Allowance	<u>(196,816)</u>
Other receivables, net	\$ <u>1,428,644</u>

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

Capital Assets

Capital asset activities for the year ended September 30, 2018 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	60,842,094	1,166,987	-	62,009,081
Vehicles	5,397,883	1,784,419	-	7,182,302
Others	<u>2,880,389</u>	<u>421,071</u>	-	<u>3,301,460</u>
Total	<u>69,120,366</u>	<u>3,372,477</u>	-	<u>72,492,843</u>
Less accumulated depreciation:				
Building and improvements	22,048,891	1,546,896	-	23,595,787
Vehicles	5,164,111	906,813	-	6,070,924
Others	<u>2,604,205</u>	<u>105,765</u>	-	<u>2,709,970</u>
Total	<u>29,817,207</u>	<u>2,559,474</u>	-	<u>32,376,681</u>
Capital assets being depreciated, net	<u>39,303,159</u>	<u>813,003</u>	-	<u>40,116,162</u>
Capital assets, net	75,951,009	813,003	-	76,764,012
Construction in progress	<u>498,061</u>	<u>175,766</u>	-	<u>673,827</u>
Total	\$ <u>76,449,070</u>	\$ <u>988,769</u>	\$ -	\$ <u>77,437,839</u>

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

Notes to the Basic Financial Statements
September 30, 2018

(3) Detail Notes on all Funds, Continued

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

Retirement Plan

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

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

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

Only 30 employees of the PSS did not voluntarily terminate membership in the DB Plan and PSS contributed \$554,575, \$435,506 and \$446,606 to the NMISF during the years ended September 30, 2018, 2017 and 2016, respectively.

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

Notes to the Basic Financial Statements
September 30, 2018

(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, 2018, 2017 and 2016 were \$370,415, \$282,741 and \$265,203, 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 \$41,016,172. Pursuant to the Court Order, PSS only recognized a liability based on the percentage the Court ordered PSS to remit to the Fund.

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

Medical and Life Insurance Benefits

In addition to providing pension benefits, the CNMI Government also ensures that employees are provided with medical and life insurance benefits. The CNMI Government created the Group Health and Life Insurance Trust Fund ("Trust Fund"), held in trust and administered by the Northern Mariana Islands Retirement Fund (NMIRF). PSS contributes to the Group Health and Life Insurance program. This is open to active employees who work at least 20 hours per week and to retired CNMI Government employees who retire as a result of length of service, disability or age, as well as their dependents.

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

Notes to the Basic Financial Statements
September 30, 2018

(3) Detail Notes on all Funds, Continued

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 \$36,200,168 for PSS' operational use and \$188,507 for the Board of Education's operations for the fiscal year ended September 30, 2018. There was also a supplemental appropriation of \$11,850,000.

During the year ended September 30, 2018, total utilities expense to CUC amounted to \$2,525,984.

Non-current Liabilities

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

	<u>Balance</u> <u>9/30/17</u>	<u>Change</u>	<u>Balance</u> <u>9/30/18</u>	<u>Due in</u> <u>1 Year</u>	<u>Noncurrent</u>
Compensated absences	\$ <u>3,094,579</u>	\$ <u>528,285</u>	\$ <u>3,622,864</u>	\$ <u>1,948,012</u>	\$ <u>1,674,852</u>

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, 2018.

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

Notes to the Basic Financial Statements
September 30, 2018

(4) Deferred Inflows and Deferred Outflows of Resources, continued

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, 2018, PSS only has one type of deferred inflows of resources arising from grants received with restrictions.

(5) Contingencies

CNMI Contributions

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

Financial and Compliance Audits

PSS administers significant financial assistance from the U.S. Federal Government in the form of grants and entitlements. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including expenditure of resources for eligible purposes. Substantially all grants are subject to either the 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, 2018 is \$8.284 million.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements
September 30, 2018

(6) Commitments

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, \$3,549,080 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, 2018.

(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, 2018 (see note 10 below).

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

(8) Economic Dependency

PSS receives a substantial amount of its support from Federal and local governments. For the fiscal year ending September 30, 2018, 54% and 44% 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.

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

Notes to the Basic Financial Statements
September 30, 2018

(10) Subsequent Events

In preparing the accompanying financial statements and these footnotes, management has evaluated subsequent events through June 30, 2019, which is the date the financial statements were available to be issued. On October 25, 2018, Super Typhoon Yutu hit the islands of Saipan and Tinian causing major destruction island wide. The PSS' facilities were damaged during the typhoon and the preliminary assessment of government assistance from FEMA is approximately \$38 million.

PUBLIC SCHOOL SYSTEM

SUPPLEMENTAL INFORMATION

Year Ended September 30, 2018

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

Combining Balance Sheets
Non-major Funds
For the Year Ended September 30, 2018

	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	\$ 111,060	\$ -	\$ 243,739	\$ -	\$ -	\$ 338,710	\$ -	\$ 696,244
Receivable from Federal Agencies	-	-	-	-	-	198,345	-	-	198,345
Other receivables	8,588	-	419,980	8,038	-	-	-	-	436,606
Due from other funds	-	-	416,441	445,894	438,208	937,052	-	64,041	2,301,636
	<u>-</u>	<u>-</u>	<u>416,441</u>	<u>445,894</u>	<u>438,208</u>	<u>937,052</u>	<u>-</u>	<u>64,041</u>	<u>2,301,636</u>
Total assets	<u>\$ 11,323</u>	<u>\$ 111,060</u>	<u>\$ 836,421</u>	<u>\$ 697,671</u>	<u>\$ 438,208</u>	<u>\$ 1,135,397</u>	<u>\$ 338,710</u>	<u>\$ 64,041</u>	<u>\$ 3,632,831</u>
<u>Liabilities, Deferred Inflows and Fund Balances</u>									
Liabilities:									
Accounts payable and accrued expenses	-	-	-	-	-	-	-	-	-
Due to other funds	<u>1,224,710</u>	<u>113,935</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>397,191</u>	<u>-</u>	<u>1,735,836</u>
Total liabilities	<u>1,224,710</u>	<u>113,935</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>397,191</u>	<u>-</u>	<u>1,735,836</u>
Deferred Inflows of Resources:									
Grants received	<u>-</u>	<u>-</u>	<u>-</u>	<u>739,370</u>	<u>-</u>	<u>-</u>	<u>141,519</u>	<u>42,551</u>	<u>923,440</u>
Fund Balances:									
Restricted	-	(2,875)	836,421	-	-	1,135,397	(200,000)	-	1,768,943
Assigned	-	-	-	-	438,208	-	-	-	438,208
Unassigned	<u>(1,213,387)</u>	<u>-</u>	<u>-</u>	<u>(41,699)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,490</u>	<u>(1,233,596)</u>
Total fund balances	<u>(1,213,387)</u>	<u>(2,875)</u>	<u>836,421</u>	<u>(41,699)</u>	<u>438,208</u>	<u>1,135,397</u>	<u>(200,000)</u>	<u>21,490</u>	<u>973,555</u>
<u>Total Liabilities, Deferred Inflows and Fund Balances</u>	<u>\$ 11,323</u>	<u>\$ 111,060</u>	<u>\$ 836,421</u>	<u>\$ 697,671</u>	<u>\$ 438,208</u>	<u>\$ 1,135,397</u>	<u>\$ 338,710</u>	<u>\$ 64,041</u>	<u>\$ 3,632,831</u>

⁽¹⁾ Fund codes 17000 and 18000

See accompanying notes to basic financial statements.

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

Combining Statements of Revenues, Expenditures, and Changes in Fund Balance
Non-major Funds
For the Year Ended September 30, 2018

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 407,408	\$ 491,211	\$ -	\$ 898,619
Local	-	-	-	-	294,547	-	-	-	294,547
Charges for services	-	-	-	874,506	-	-	-	7,863	882,369
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>874,506</u>	<u>294,547</u>	<u>407,408</u>	<u>491,211</u>	<u>7,863</u>	<u>2,075,535</u>
Expenditures:									
Instructional programs:									
Regular	-	-	-	-	297,798	-	-	-	297,798
Special	-	-	-	-	-	-	-	7,863	7,863
Co-curricular	-	-	-	-	-	403,411	691,211	-	1,094,622
Student services	-	-	-	-	-	-	-	-	-
Total instructional programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>297,798</u>	<u>403,411</u>	<u>691,211</u>	<u>7,863</u>	<u>1,400,283</u>
Supporting services:									
General administration	-	-	-	874,506	-	-	-	-	874,506
School administration	-	-	-	-	-	-	-	-	-
Individual programs	-	-	-	-	-	-	-	-	-
Other	176,547	-	267,976	-	367,480	-	-	-	812,003
Total supporting services	<u>176,547</u>	<u>-</u>	<u>267,976</u>	<u>874,506</u>	<u>367,480</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,686,509</u>
Total Expenditures	<u>176,547</u>	<u>-</u>	<u>267,976</u>	<u>874,506</u>	<u>665,278</u>	<u>403,411</u>	<u>691,211</u>	<u>7,863</u>	<u>3,086,792</u>
Excess (deficiency) of revenues over expenditure	(176,547)	-	(267,976)	-	(370,731)	3,997	(200,000)	-	(1,011,257)
Fund balance (deficit), beginning 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>
Fund balance (deficit), end of year	<u>\$ (1,213,387)</u>	<u>\$ (2,875)</u>	<u>\$ 836,421</u>	<u>\$ (41,699)</u>	<u>\$ 438,208</u>	<u>\$ 1,135,397</u>	<u>\$ (200,000)</u>	<u>\$ 21,490</u>	<u>\$ 973,555</u>

⁽¹⁾ Fund codes 17000 and 18000

See accompanying notes to basic financial statements.

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

Schedule of Expenditures/Expense (By Natural Classification)
Year Ended September 30, 2018

	General Fund	Federal Fund	Non-Major Funds	Total Expenditures	Conversion	Total Expenses
Salaries and wages	\$ 32,874,294	\$ 9,639,612	\$ 699,056	\$ 43,212,962	\$ 528,285	\$ 43,741,247
Professional services	799,107	15,511,762	141,678	16,452,547	-	16,452,547
Employee benefits	6,542,663	1,850,577	148,631	8,541,871	-	8,541,871
Controlled assets	1,500,665	266,830	134,702	1,902,197	(1,902,197)	-
Travel	624,021	1,672,941	480,016	2,776,978	-	2,776,978
Books and instruction materials	1,200,201	3,694,133	281,549	5,175,883	-	5,175,883
Depreciation	-	-	-	-	2,559,474	2,559,474
Utilities	2,489,708	13,995	22,281	2,525,984	-	2,525,984
Supplies and materials	470,975	1,256,035	148,501	1,875,511	-	1,875,511
Rental	262,510	798,477	38,874	1,099,861	-	1,099,861
Repairs and maintenance	1,176,367	1,272,477	743,740	3,192,584	(1,094,987)	2,097,597
Indirect costs	-	1,002,127	25,829	1,027,956	-	1,027,956
Licenses and fees	60,014	658,172	7,322	725,508	-	725,508
Cleaning services	362,039	81,946	30,653	474,638	-	474,638
Communications	400,863	122,174	9,370	532,407	-	532,407
Miscellaneous	164,106	176,839	62,270	403,215	-	403,215
Fuel and lubricants	186,370	30,239	4,876	221,485	-	221,485
Dues and subscriptions	6,367	271,751	2,468	280,586	-	280,586
Security services	114,993	-	14,644	129,637	-	129,637
Printing and photocopying	43,708	247,143	25,897	316,748	-	316,748
Food items	50,672	42,768	19,387	112,827	-	112,827
Advertising	6,058	39,994	2,136	48,188	-	48,188
Recruitment and repatriation	-	11,395	6,161	17,556	-	17,556
Small tools and equipment	7,575	904,463	-	912,038	(551,059)	360,979
Freight and handling	27,059	11,344	3,890	42,293	-	42,293
Insurance	37,120	3,012	-	40,132	-	40,132
Furniture and fixtures <5,000	59,437	-	32,861	92,298	-	92,298
Bank charges	5,789	-	-	5,789	-	5,789
Total expenditures (page 21)	\$ 49,472,681	\$ 39,580,206	\$ 3,086,792	\$ 92,139,679	\$ (460,484)	\$ 91,679,195
					Total Expenses (page 19)	<u>\$ 91,679,195</u>

See accompanying notes to basic financial statements.

PUBLIC SCHOOL SYSTEM

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

Year Ended September 30, 2018

BURGER & COMER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands Public School System as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise PSS' basic financial statements and have issued our report thereon dated June 30, 2019.

Internal Control over Financial Reporting

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

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

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- 47 -

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

We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Findings 2018-001 through 2018-002, that we consider to be significant deficiencies,

Compliance and Other Matters

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

PSS' Response to Findings

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

Purpose of this Report

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



BURGER & COMER, P.C.

Saipan, Commonwealth of the Northern Mariana Islands

June 30, 2019

BURGER & COMER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

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

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of the Northern Mariana Islands Public School System's (PSS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the PSS' major federal programs for the year ended September 30, 2018. PSS' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

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Opinion on Each Major Federal Program

In our opinion, the PSS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

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 2018-002 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.

Burger & Comer, P.C.

BURGER & COMER, P.C.

Saipan, Commonwealth of the Northern Mariana Islands

June 30, 2019

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, 2018

Federal Grantor/Program Title	CFDA Number	Expenditures
<u>U.S. Department of Agriculture</u>		
Direct Program:		
National School Lunch Program	10.555	\$ 13,300,754
Emergency Food Assistance Program	10.568	<u>185,511</u>
Total U.S. Department of Agriculture		<u>13,486,265</u>
 <u>U.S. Department of Education</u>		
Direct Program:		
Consolidated Grants to the Outlying Areas	84.403	14,363,779
Special Education - Grants to States (IDEA, Part B) Territories and Freely Associated States Education Grant Program	84.027	5,811,520
Special Education - Grants for Infants and Families	84.256	298
Striving Readers	84.181	429,241
	84.371	<u>69,750</u>
Total U.S. Department of Education		<u>20,674,588</u>
 <u>U.S. Department of Transportation</u>		
Direct Program:		
Formula Grants for Other Than Urbanized Areas	20.509	<u>975</u>
Total U.S. Department of Transportation		<u>975</u>
 Sub-total carried forward		 <u>\$ 34,161,828</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, 2018

Federal Grantor/Program Title	CFDA Number	Expenditures
Sub-total brought forward		<u>\$ 34,161,828</u>
<u>U.S. Department of Health and Human Services</u>		
Direct Programs:		
Head Start	93.600	4,399,686
Personality Responsibility Education	93.092	387,152
Project Traditional Technology	93.612	254,739
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.079	<u>10,000</u>
Sub-total Direct Programs		<u>5,051,577</u>
Total U.S. Department of Health and Human Services		<u>5,051,577</u>
<u>Corporation for National and Community Service</u>		
Direct Program:		
AmeriCorps	94.006	<u>287,336</u>
Total Corporation for National and Community Service		<u>287,336</u>
<u>U.S. Department of the Interior</u>		
Direct Program:		
Technical Assistance Programs	11.550	<u>79,465</u>
Total U.S. Department of the Interior		<u>79,465</u>
Total expenditures		<u>\$ 39,580,206</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, 2018

Federal Grantor/Program Title	CFDA Number	Expenditures
Reconciliation:		
Expenditures Federal Fund		\$ 39,580,206
Expenditures included in nonmajor funds		-
Expenditures included in General Fund		-
Total expenditures		\$ 39,580,206

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, 2018

(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 2018. The approved rates are as follows:

Unrestricted	5.55%
Restricted rate	4.20%

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

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, 2018

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	\$ 14,363,779
84.027	Special Education Grants to States	5,811,520
93.600	Head Start	4,399,686
10.555	National School Lunch Program	<u>13,300,754</u>
Total Federal Expenditures-Major Programs		<u>\$ 37,875,739</u>
Percentage of total awards tested		95 %

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

\$ 1,187,406
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, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2018-001, Human Resources

Finding type: Significant deficiency in Internal Control

Criteria:

Personnel records should have all the required documents pursuant to PSS regulation § 60-30 and standards operating procedures. The employee should verify and sign the time card.

Condition:

For 14 or 16% of the 90 payroll selected for pay period 12/10/2017-12/23/2017, 17 or 19% of the payroll selected for pay period 5/27/2018-6/9/2018, 5 or 6% of the payroll selected for pay period 9/2/2018-9/15/2018, employees did not sign and verify the time card.

Employee Number	Pay period	Payment Date	Remarks
2078	12/10/17-12/23/17	1/3/2018	Missing signature
2155	12/10/17-12/23/17	1/3/2018	Missing signature
2891	12/10/17-12/23/17	1/3/2018	Missing signature
7289	12/10/17-12/23/17	1/3/2018	Missing signature
8109	12/10/17-12/23/17	1/3/2018	Missing signature
8608	12/10/17-12/23/17	1/3/2018	Missing signature
9269	12/10/17-12/23/17	1/3/2018	Missing signature
11158	12/10/17-12/23/17	1/3/2018	Missing signature
12248	12/10/17-12/23/17	1/3/2018	Missing signature
12591	12/10/17-12/23/17	1/3/2018	Missing signature
12988	12/10/17-12/23/17	1/3/2018	Missing signature
16237	12/10/17-12/23/17	1/3/2018	Missing signature
17090	12/10/17-12/23/17	1/3/2018	Missing signature
18321	12/10/17-12/23/17	1/3/2018	Missing signature
2078	5/27/18-6/9/18	6/21/2018	Missing signature
2155	5/27/18-6/9/18	6/21/2018	Missing signature
2208	5/27/18-6/9/18	6/21/2018	Missing signature
2891	5/27/18-6/9/18	6/21/2018	Missing signature
7289	5/27/18-6/9/18	6/21/2018	Missing signature
8109	5/27/18-6/9/18	6/21/2018	Missing signature
8608	5/27/18-6/9/18	6/21/2018	Missing signature

**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, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2018-001, Human Resources, Continued

9269	5/27/18-6/9/18	6/21/2018	Missing signature
9680	5/27/18-6/9/18	6/21/2018	Missing signature
12248	5/27/18-6/9/18	6/21/2018	Missing signature
12591	5/27/18-6/9/18	6/21/2018	Missing signature
16237	5/27/18-6/9/18	6/21/2018	Missing signature
16960	5/27/18-6/9/18	6/21/2018	Missing signature
17090	5/27/18-6/9/18	6/21/2018	Missing signature
18321	5/27/18-6/9/18	6/21/2018	Missing signature
18800	5/27/18-6/9/18	6/21/2018	Missing signature
19127	5/27/18-6/9/18	6/21/2018	Missing signature
2078	9/02/18-9/15/18	9/27/2018	Missing signature
2891	9/02/18-9/15/18	9/27/2018	Missing signature
7289	9/02/18-9/15/18	9/27/2018	Missing signature
8109	9/02/18-9/15/18	9/27/2018	Missing signature
12427	9/02/18-9/15/18	9/27/2018	Missing signature

Cause:

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

Effect:

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

**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, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 2018-001, Human Resources, Continued

Recommendation:

PSS held the time keeper training on August 30, 2018. On the time card section, all employees must have timecards and the timecards should include the employee's signature. The PSS should strengthen the training on the payroll process, implement and monitor the procedures.

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

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding 2018-002 Procurement and Suspension and Debarment-After the Fact Justification

Grantor:	Department of Education
Program Name:	Special Education- Grants to States
CFDA No.:	84.027
Award No.:	H027A170106
Award Year:	2017-2018
Repeat Finding From Prior Audit?	Yes
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 71 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 279998	05/21/2018	04/30/2018	146310-OP	05/11/2018	\$ 2,856.69
2	PV 275326	03/01/2018	01/31/2018	144175-OP	02/23/2018	\$ 2,829.11

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, 2018

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

**Finding 2018-002 Procurement and Suspension and Debarment-After the Fact Justification,
Continued:**

Grantor:	Department of Education
Program Name:	Grants to States
CFDA No.:	84.027
Award No.:	H027A170106
Award Year:	2017-2018
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
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TEACHER REPRESENTATIVE
 Paul Miura

NON PUBLIC SCHOOL REP.
 Galvin S. Deleon Guerrero

STUDENT REPRESENTATIVE
 Pionnah Rosej Gregorio

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

A. FINANCIAL STATEMENT FINDINGS

Reference No.	Findings	Status
2016-001	Travel Authorization	Resolved.
2016-002	Travel Advance Liquidation	Resolved
2016-003	Human Resources	Resolved
2017-001	Human Resources	Resolved
2017-003	Travel Advances	Resolved
2017-004	Travel Advance Liquidation	Resolved

STUDENTS FIRST

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**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, 2018

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference No.	Findings	Status
2016-004	Travel Advance Liquidation	Resolved.
2016-005	Sole Source Justification	Resolved.
2016-006	Health Certificate	Resolved.
2017-002	After-the-fact Ratification	No corrected, similar condition noted in Finding No. 2018-002
2017-005	After-the-fact Ratification	No corrected, similar condition noted in Finding No. 2018-002



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*Galvin S. Deleon Guerrero
Non-Public School Rep.*

*Pionnah R. Gregorio
Student Representative*

*Glenn P. Muña, M.Ed.
COMMISSIONER OF EDUCATION
pss.coe@cnmipss.org*

Finding No. 2018-001. Payroll Department

Auditee Response:

Contact Person – Naydine Aguon, Payroll Supervisor

Contact – naydine.aguon@cnmipss.org

Completion Date – Corrective actions have been implemented

PSS Payroll Department conducts annual Time Keeping Training to all time keepers across the school district the last of which was on August 30, 2018. The training will be conducted again this year with a mandatory attendance of all time-keepers.

Furthermore, it has been communicated with Time Keepers that it is a PSS regulation to ensure employees sign their timecards. PSS payroll department will also include in its policies to not accept timecard submissions from time-keepers if the employee has not signed his/her timecard.

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 for the following reasons:

1. Similar to CUC billings, IT&E bills after services are rendered (as usage and actual total costs cannot be pre-determined);
2. This SpEd unique and specialized services were not covered by the then exclusive PSS contract with IT&E;
3. The payment due date comes after PO was processed and released (see attached EXHIBIT 3A);
4. The justification memo clearly provides the month of services (January 2018) for the payment;
5. Payment was made to IT&E after the PO was processed and released; and
6. The unique and specialized services are required by the SpEd grant.

Item No. 02: The finding should be removed for the same reasons provided in first response above. Costs and usage cannot be predetermined.

STUDENTS FIRST

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