

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

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

**Years Ended September 30, 2010 and 2009**

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**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, 2010

<u>Items</u>	<u>Page No.</u>
I. FINANCIAL SECTION	
A. Independent Auditor's Report on Financial Statements	1-2
Management's Discussion & Analysis	3-12
Statements of Net Assets	13
Statements of Activities	14
Balance Sheets – Governmental Funds	15
Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance with the District-wide Statement of Activities	17
Combining Balance Sheets – Non-major Funds	18
Combining Statements of Revenues, Expenditures and Changes in Fund Balance – Non-major Funds	19
Notes to the Basic Financial Statements	20-41
B. Supplementary Information	
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Budget (GAAP Basis) and Actual – General Fund	42

**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, 2010

<u>Items</u>	<u>Page No.</u>
II. SINGLE AUDIT REPORTS	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	43-44
Independent Auditor's Report On Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards	45-47
Schedule of Expenditures of Federal Awards	48-50
Notes to the Schedule of Expenditures of Federal Awards	51
Schedule of Findings and Questioned Costs	
Section I – Summary of Auditor's Results	52-53
Section II – Financial Statement Findings	54-75
Section III – Federal Awards Findings and Questioned Costs	76-79
III. SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	80-92
IV. SUMMARY OF UNRESOLVED QUESTIONED COSTS	93
V. AUDITEE RESPONSE ON FINDINGS AND QUESTIONED COST	94-97
VI. STATISTICAL SECTION	98-100

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

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

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**Years Ended September 30, 2010 and 2009**

**J. Scott Magliari**  
**& COMPANY**

CERTIFIED PUBLIC ACCOUNTANT

**SAIPAN OFFICE:**

Family Building, Suite 201  
PMB 297 Box 10000  
Saipan, MP 96950  
Tel Nos. (670) 233-1837/0456  
Fax No. (670) 233-8214  
Email: magliari@pticom.com

**GUAM OFFICE:**

Reflection Center, Suite 204  
P.O. Box 12734  
Tamuning, GU 96931  
Tel Nos. (671) 472-2680/2687  
Fax No. (671) 472-2686  
Email: jsmguam@ite.net

**PALAU OFFICE:**

PIDC Apartment No. 11  
P.O. Box 1266  
Koror, PW 96940  
Tel No. (680) 488-8615  
Fax No. (680) 488-8616  
Email: coconutrum@palaunet.com

**INDEPENDENT AUDITOR'S REPORT**

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

I have audited the accompanying financial statements of governmental activities and each major fund of the Commonwealth of the Northern Mariana Islands Public School System (PSS), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI) government, as of September 30, 2010 and 2009, and for the years then ended, which collectively comprise PSS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of PSS' management. My responsibility is to express an opinion on these financial statements based on my audits.

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


The management of PSS believes that the appropriation receivable from CNMI Government is collectible despite being over one-year overdue, and accordingly, has not considered the need to provide an allowance for uncollectible amount. Furthermore, the CNMI Government and the PSS have not reconciled the appropriation receivable account of PSS with the payable of the CNMI Government. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables, which would decrease the assets and fund balances and change the expenditures in the general fund. Had management and the Board provided an allowance for uncollectible appropriations, the assets and fund balances of the general fund would decrease by \$2,725,128 and \$1,998,654 for the fiscal year 2010 and 2009, respectively.

In my opinion, except for the effects of not providing an adequate allowance for uncollectible appropriation receivable from the CNMI Government as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of PSS as of September 30, 2010 and 2009, and the respective changes in financial position and the respective budgetary comparison for the general fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with the *Government Auditing Standards*, I have also issued my report dated March 28, 2011 on my consideration of PSS' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting, or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 to 12 and page 42, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of PSS' management. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit this information and express no opinion on it.

My audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise PSS' basic financial statements. The statistical data on pages 98 to 100 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of PSS' management. The statistical data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

  
Saipan, Commonwealth of the Northern Mariana Islands  
March 28, 2011

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

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010

This section of the CNMI Public School System (PSS) financial report represents management's discussion and analysis (MD&A) of the financial performance of PSS for the year ended September 30, 2010. This information should be read in conjunction with the audited financial statements and related footnotes included in this report on pages 13 through 41.

**Financial Highlights**

PSS' enrollment of 10,939 students in fiscal year 2009 increased to 10,961 students for fiscal year 2010.

PSS' net assets decreased by \$8,710,824, from \$79,253,967 in fiscal year 2009 to \$70,543,143 in fiscal year 2010. This decrease was primarily due to the accrual for unfunded retirement contributions of \$5.3 million, accrual of unpaid compensated absences of \$429,000 and excess expenditures over revenues of \$2.1 million.

As of the close of the fiscal year 2010, PSS' net assets totaled \$70,543,143. This includes capital assets, net of accumulated depreciation, of \$84,018,817, capital improvement projects in-progress of \$3,318,462 and a deficit of \$16,794,136.

**Overview of the Financial Statements**

GASB Statement No. 34 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.

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

***Management Discussion and Analysis (MD&A)***

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

***District-wide Statements***

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

The district-wide statements are presented on the full accrual basis of accounting and include the Statement of Net Assets and the Statement of Activities.

*Statement of Net Assets*

The Statement of Net Assets includes all of the CNMI Public School System assets and liabilities. Assets and liabilities are classified in the order of relative liquidity for assets and due date for

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

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010

liabilities. This statement provides a summary of the school system's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

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

*Statement of Activities*

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

**Fund Financial Statements**

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

*Balance Sheet*

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

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

*Reconciliation from District-wide to Fund Statements*

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

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

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



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

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010

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

PSS' major funds are:

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

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

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

**CONDENSED COMPARATIVE DATA**

***Assets, Liabilities and Net Assets***

PSS' net assets, on the district-wide basis, decreased by \$8,710,824 from previous year's \$79,253,967 to \$70,543,143 at close of fiscal year 2010.

<b>Change in Net Assets</b>			
	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>
Net assets, beginning of year	\$ 79,253,967	\$ 86,437,656	\$ 89,645,180
Revenues	75,287,984	64,720,505	65,546,352
Expenditures	83,569,521	72,999,334	70,260,117
Excess of expenditures over revenue	(8,281,537)	(8,278,829)	(4,713,765)
Change in accrued annual leave	(429,287)	1,095,140	1,506,241
Net assets, end of year	\$ 70,543,143	\$ 79,253,967	\$ 86,437,656

Net assets is an indicator of the fiscal health of the school system. Assets for governmental activities exceeded liabilities by \$70,543,143 and \$79,253,967 as of September 30, 2010 and 2009, respectively. The largest component of net assets is invested in capital assets amounting to \$84,018,817 and \$85,403,930 at September 30, 2010 and 2009, respectively.

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

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010

Net assets decreased by \$8,710,824 and \$7,183,689 in fiscal year 2010 and 2009, respectively. The decrease in net assets in 2010 and 2009 is primarily due to the accrual of unfunded retirement contribution.

<b>Net Assets</b>			
	<b>Sept 30, 2010</b>	<b>Sept 30, 2009</b>	<b>Increase (Decrease)</b>
Current assets	\$ 15,010,214	\$ 16,524,523	\$ (1,514,309)
Noncurrent assets	87,337,279	88,403,356	(1,066,077)
<b>Total assets</b>	<b>102,347,493</b>	<b>104,927,879</b>	<b>(2,580,386)</b>
Current liabilities	11,526,645	10,871,919	654,726
Noncurrent liabilities	20,277,705	14,801,993	5,475,712
<b>Total liabilities</b>	<b>31,804,350</b>	<b>25,673,912</b>	<b>6,130,438</b>
<b>Net Assets</b>	<b>\$ 70,543,143</b>	<b>\$ 79,253,967</b>	<b>\$ (8,710,824)</b>
Investment in capital assets	\$ 84,018,817	\$ 85,403,930	\$ (1,385,113)
Restricted for capital improvement projects in progress	3,318,462	2,999,426	319,036
Unrestricted	(16,794,136)	(9,149,389)	(7,644,747)
<b>Net Assets</b>	<b>\$ 70,543,143</b>	<b>\$ 79,253,967</b>	<b>\$ (8,710,824)</b>

<b>Net Assets</b>			
	<b>Sept 30, 2009</b>	<b>Sept 30, 2008</b>	<b>Increase (Decrease)</b>
Current assets	\$ 16,524,523	\$ 12,021,273	\$ 4,503,250
Noncurrent assets	88,403,356	89,463,435	(1,060,079)
<b>Total assets</b>	<b>104,927,879</b>	<b>101,484,708</b>	<b>3,443,171</b>
Current liabilities	10,871,919	6,765,355	4,106,564
Noncurrent liabilities	14,801,993	8,281,697	6,520,296
<b>Total liabilities</b>	<b>25,673,912</b>	<b>15,047,052</b>	<b>10,626,860</b>
<b>Net Assets</b>	<b>\$ 79,253,967</b>	<b>\$ 86,437,656</b>	<b>\$ (7,183,689)</b>
Investment in capital assets	\$ 85,403,930	\$ 86,483,662	\$ (1,079,732)
Restricted for capital improvement projects in progress	2,999,426	2,979,773	19,653
Unrestricted	(9,149,389)	(3,025,779)	(6,123,610)
<b>Net Assets</b>	<b>\$ 79,253,967</b>	<b>\$ 86,437,656</b>	<b>\$ (7,183,689)</b>

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

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010

**Revenues**

Total revenues for fiscal year 2010 is \$75,287,984, a 16% increase from fiscal year 2009 while total revenues for fiscal year 2009 is \$64,720,505, a 1% decrease from fiscal year 2008. The increase in revenue is primarily from funding received through the American Recovery and Reinvestment Act (ARRA).

<b>Revenues</b>			
	<b>Sept 30, 2010</b>	<b>Sept 30, 2009</b>	<b>Increase (Decrease)</b>
<b>Program revenues</b>			
Charges for services	\$ 2,077,273	\$ 1,368,328	\$ 708,945
Operating grants and contributions	41,688,947	28,706,673	12,982,274
	<u>43,766,220</u>	<u>30,075,001</u>	<u>13,691,219</u>
<b>General revenues</b>			
Unrestricted CNMI appropriations	31,219,656	34,601,764	(3,382,108)
Restricted for capital improvements	302,108	43,740	258,368
	<u>31,521,764</u>	<u>34,645,504</u>	<u>(3,123,740)</u>
	<u>\$ 75,287,984</u>	<u>\$ 64,720,505</u>	<u>\$ 10,567,479</u>

<b>Revenues</b>			
	<b>Sept 30, 2009</b>	<b>Sept 30, 2008</b>	<b>Increase (Decrease)</b>
<b>Program revenues</b>			
Charges for services	\$ 1,368,328	\$ 1,335,432	\$ 32,896
Operating grants and contributions	28,706,673	27,688,584	1,018,089
	<u>30,075,001</u>	<u>29,024,016</u>	<u>1,050,985</u>
<b>General revenues</b>			
Unrestricted CNMI appropriations	34,601,764	35,847,444	(1,245,680)
Restricted for capital improvements	43,740	674,892	(631,152)
	<u>34,645,504</u>	<u>36,522,336</u>	<u>(1,876,832)</u>
	<u>\$ 64,720,505</u>	<u>\$ 65,546,352</u>	<u>\$ (825,847)</u>

Revenues are classified as either program or general.

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

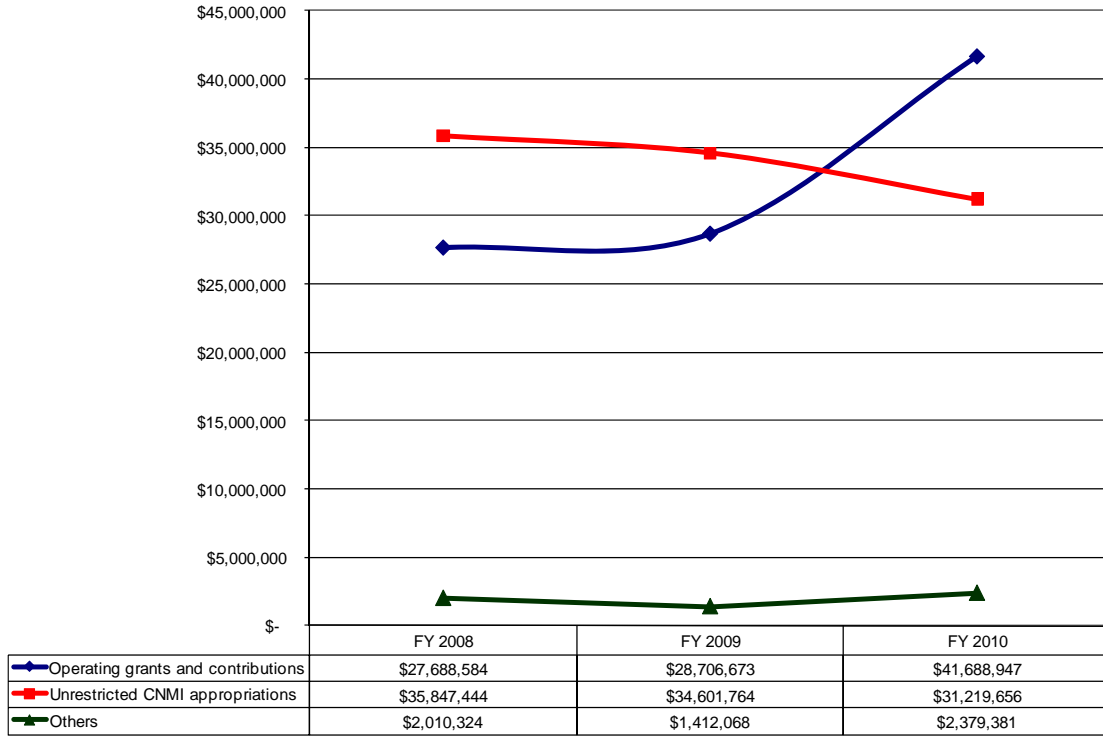
The *general revenue* classification includes appropriations, interest and other income not identifiable to specific activities.

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

(A Component Unit of the CNMI Government)

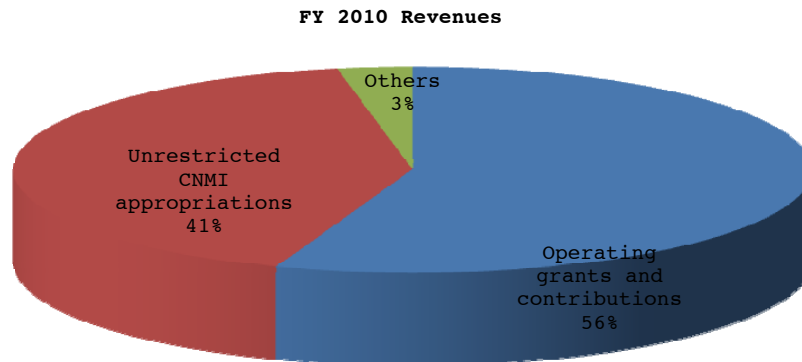
Management's Discussion and Analysis  
September 30, 2010

Exhibit I



The chart above shows PSS revenues over the past three years. It shows a significant increase in grants while the CNMI appropriation continues to decrease.

Exhibit II



Operating grants and contributions constitute 56% of fiscal year 2010 revenues and are the highest source of revenue for PSS.

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

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

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010

**Expenses**

Total district-wide expenses by function were as follows:

<b>Expenses</b>			
	<b>Sept 30, 2010</b>	<b>Sept 30, 2009</b>	<b>Increase (Decrease)</b>
<b>Instruction:</b>			
Regular	\$ 29,370,622	\$ 24,806,526	\$ 4,564,096
Special education	8,610,546	8,373,763	236,783
Co-curricular	4,535,865	2,085,606	2,450,259
Student services	18,529,726	15,829,779	2,699,947
	<u>61,046,759</u>	<u>51,095,674</u>	<u>9,951,085</u>
<b>Support services:</b>			
General administration	2,027,210	1,557,821	469,389
School administration	4,660,388	3,382,787	1,277,601
Other support	5,474,872	3,373,563	2,101,309
Community	862,497	1,072,018	(209,521)
Individual programs	2,949,607	2,552,166	397,441
Unfunded retirement contribution - unallocated	5,046,425	8,115,436	(3,069,011)
Depreciation - unallocated	1,501,763	1,849,869	(348,106)
	<u>22,522,762</u>	<u>21,903,660</u>	<u>619,102</u>
<b>Total governmental activities</b>	<b>\$ 83,569,521</b>	<b>\$ 72,999,334</b>	<b>\$ 10,570,187</b>

<b>Expenses</b>			
	<b>Sept 30, 2009</b>	<b>Sept 30, 2008</b>	<b>Increase (Decrease)</b>
<b>Instruction:</b>			
Regular	\$ 24,806,526	\$ 25,123,949	\$ (317,423)
Special education	8,373,763	7,623,170	750,593
Co-curricular	2,085,606	2,256,001	(170,395)
Student services	15,829,779	14,202,377	1,627,402
	<u>51,095,674</u>	<u>49,205,497</u>	<u>1,890,177</u>
<b>Support services:</b>			
General administration	1,557,821	1,894,890	(337,069)
School administration	3,382,787	4,215,690	(832,903)
Other support	3,373,563	4,197,538	(823,975)
Community	1,072,018	1,513,102	(441,084)
Individual programs	2,552,166	1,963,403	588,763
Unfunded retirement contribution - unallocated	8,115,436	6,014,334	2,101,102
Depreciation - unallocated	1,849,869	1,255,663	594,206
	<u>21,903,660</u>	<u>21,054,620</u>	<u>849,040</u>
<b>Total governmental activities</b>	<b>\$ 72,999,334</b>	<b>\$ 70,260,117</b>	<b>\$ 2,739,217</b>

Total expenses increased by \$10,570,187 or 14% and \$2,739,217 or 4% as compared to fiscal year 2009 and 2008, respectively. The significant increase in fiscal year 2010 is due to expenditures authorized through the funding from ARRA.

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

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010

**GENERAL FUND BUDGETARY HIGHLIGHTS**

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
EXPENDITURES:					
Personnel	\$ 25,436,526	\$ -	\$ 25,436,526	\$ 26,064,779	\$ (628,253)
Utilities	2,918,775	-	2,918,775	3,729,692	(810,917)
All other	2,864,356	-	2,864,356	3,590,727	(726,371)
Textbooks	312,196	-	312,196	-	312,196
Total expenditures	<u>31,531,853</u>	<u>-</u>	<u>31,531,853</u>	<u>33,385,198</u>	<u>(1,853,345)</u>
OPERATING TRANSFERS-IN	<u>31,531,853</u>	<u>-</u>	<u>31,531,853</u>	<u>31,531,853</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,853,345</u>	<u>\$ (1,853,345)</u>

PSS general fund expenditures for fiscal year 2010 exceeded the appropriated budget.

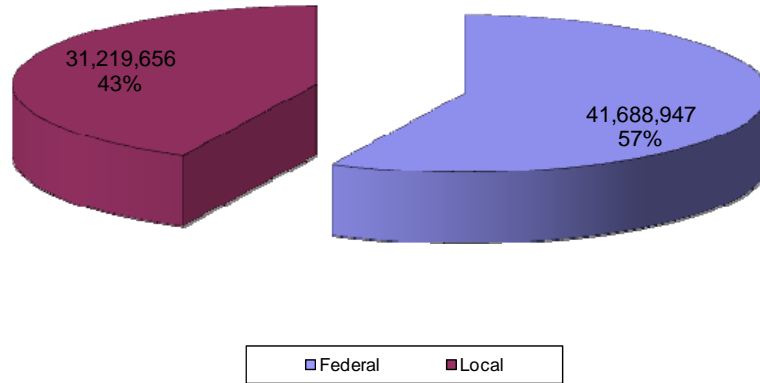
**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010

Exhibit III

**PSS Budget for Fiscal Year 2010**



**Federal and Local Budget Review**

<u>Year</u>	<u>Total Funding</u>	<u>Federal Funding</u>		<u>Local Funding</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
2001	\$54,230,342	\$17,000,000	31%	\$37,230,342	69%
2002	\$55,230,342	\$18,000,000	33%	\$37,230,342	67%
2003	\$60,230,342	\$23,000,000	38%	\$37,230,342	62%
2004	\$60,730,342	\$23,500,000	39%	\$37,230,342	61%
2005	\$63,032,129	\$25,801,787	41%	\$37,230,342	59%
2006	\$66,582,346	\$29,372,418	44%	\$37,209,928	56%
2007	\$65,357,368	\$28,635,954	44%	\$36,721,414	56%
2008	\$65,381,534	\$29,534,090	45%	\$35,847,444	55%
2009	\$63,308,437	\$28,706,673	45%	\$34,601,764	55%
2010	\$72,908,603	\$41,688,947	57%	\$31,219,656	43%

The contribution of local funding to the total funding has varied from 43% to 69% for the 10-year period from 2001 to 2010. Federal funding continues to increase over the past ten years while local funding significantly declined from \$37 million in 2001 to \$36.7 million in 2007. Local appropriation continued to decrease and in 2010 is at \$31.2 million which is a \$6 million or 16% decrease from the 2001 to 2006 appropriation.

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

(A Component Unit of the CNMI Government)

Management's Discussion and Analysis  
September 30, 2010

**CAPITAL ASSETS**

PSS' investment in capital assets, net of accumulated depreciation, as of September 30, 2010 and 2009 was \$84,018,817 and \$85,403,930, respectively. Depreciation expense for the 2010 and 2009 was \$1,914,025 and \$2,235,908, respectively.

<b>Capital Assets</b>			
	<b>Sept 30, 2010</b>	<b>Sept 30, 2009</b>	<b>Sept 30, 2008</b>
Capital assets not depreciated			
Land	\$ 36,647,850	\$ 36,647,850	\$ 36,647,850
Capital assets, net of accumulated depreciation			
Building and improvements	45,202,351	46,560,036	47,917,721
Vehicle	2,058,962	1,991,489	1,587,487
Others	109,654	204,555	330,604
	<u>47,370,967</u>	<u>48,756,080</u>	<u>49,835,812</u>
	<u>\$ 84,018,817</u>	<u>\$ 85,403,930</u>	<u>\$ 86,483,662</u>

More detailed information on capital assets are on pages 33 through 35 in Note 3 of the basic financial statements.

**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:

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

or

Mr. Richard Waldo  
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)

Statements of Net Assets  
September 30, 2010 and 2009

	2010	2009
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 693,114	\$ 1,184,881
Receivables from the CNMI Government	3,846,402	5,456,635
Receivables from Federal agencies	3,712,593	3,651,389
Other receivables	63,900	312,902
Advances, net	399,035	240,178
Due from other funds	6,295,170	5,678,538
Total current assets	15,010,214	16,524,523
Noncurrent assets:		
Capital improvement projects in-progress	3,318,462	2,999,426
Capital assets, net	84,018,817	85,403,930
Total current assets	87,337,279	88,403,356
TOTAL ASSETS	\$ 102,347,493	\$ 104,927,879
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Current liabilities:		
Bank overdraft	\$ 806,610	\$ -
Accrued payroll and others	521,271	1,954,227
Vouchers payable	1,543,558	577,010
Due to other funds	6,295,170	5,678,538
Compensated absences due in one year	500,000	500,000
Deferred revenue	1,858,885	2,160,993
Other liabilities	1,151	1,151
Total current liabilities	11,526,645	10,871,919
Noncurrent liabilities:		
Retirement contributions payable	19,176,195	14,129,770
Compensated absences	1,101,510	672,223
Total noncurrent liabilities	20,277,705	14,801,993
Total liabilities	31,804,350	25,673,912
Commitments and Contingencies		
Net Assets:		
Restricted for:		
Investment in capital assets	84,018,817	85,403,930
Capital improvement projects in progress	3,318,462	2,999,426
Unrestricted	(16,794,136)	(9,149,389)
Total net assets	70,543,143	79,253,967
TOTAL LIABILITIES AND NET ASSETS	\$ 102,347,493	\$ 104,927,879

See accompanying notes to basic financial statements.

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

Statements of Activities  
For the Years Ended September 30, 2010 and 2009

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	Total	
				<u>2010</u>	<u>2009</u>
Governmental activities:					
Instruction:					
Regular	\$ 29,370,622	\$ -	\$ 7,725,767	\$ (21,644,855)	\$ (23,337,286)
Special education	8,610,546	-	7,464,605	(1,145,941)	(1,675,067)
Co-curricular	4,535,865	-	3,588,365	(947,500)	(943,999)
Student services	<u>18,529,726</u>	<u>2,077,273</u>	<u>18,601,994</u>	<u>2,149,541</u>	<u>2,764,663</u>
Total instruction	<u>61,046,759</u>	<u>2,077,273</u>	<u>37,380,731</u>	<u>(21,588,755)</u>	<u>(23,191,689)</u>
Support services:					
General administration	2,027,210	-	697,543	(1,329,667)	(1,557,821)
School administration	4,660,388	-	718,927	(3,941,461)	(3,288,368)
Other support	5,474,872	-	1,144,144	(4,330,728)	(3,308,263)
Community	862,497	-	862,497	-	-
Individual programs	2,949,607	-	885,105	(2,064,502)	(1,612,887)
Unfunded retirement contribution - unallocated	5,046,425	-	-	(5,046,425)	(8,115,436)
Depreciation - unallocated	<u>1,501,763</u>	<u>-</u>	<u>-</u>	<u>(1,501,763)</u>	<u>(1,849,869)</u>
Total support services	<u>22,522,762</u>	<u>-</u>	<u>4,308,216</u>	<u>(18,214,546)</u>	<u>(19,732,644)</u>
Total governmental activities	<u>\$ 83,569,521</u>	<u>\$ 2,077,273</u>	<u>\$ 41,688,947</u>	<u>(39,803,301)</u>	<u>(42,924,333)</u>
				31,219,656	34,601,764
				302,108	43,740
				-	-
				<u>31,521,764</u>	<u>34,645,504</u>
				(8,281,537)	(8,278,829)
				(429,287)	1,095,140
				<u>79,253,967</u>	<u>86,437,656</u>
				<u>\$ 70,543,143</u>	<u>\$ 79,253,967</u>

See accompanying notes to basic financial statements.

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

Balance Sheets  
Governmental Funds  
September 30, 2010 and 2009

	General Fund	Capital Projects Fund	Federal Funds	Non-major Funds	2010	2009
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$ 693,114	\$ -	\$ -	\$ -	\$ 693,114	\$ 1,184,881
Receivables from CNMI	3,837,814	-	-	8,588	3,846,402	5,456,635
Receivables from Federal agencies	-	-	3,712,593	-	3,712,593	3,651,389
Other receivables	63,900	-	-	-	63,900	312,902
Advances, net	306,244	-	92,791	-	399,035	240,178
Due from other funds	2,170,269	1,858,885	656,467	1,609,549	6,295,170	5,678,538
TOTAL ASSETS	\$ 7,071,341	\$ 1,858,885	\$ 4,461,851	\$ 1,618,137	\$ 15,010,214	\$ 16,524,523
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Bank overdraft	\$ 806,610	\$ -	\$ -	\$ -	\$ 806,610	\$ -
Accrued payroll and others	370,682	150,589	-	-	521,271	1,954,227
Vouchers payable	1,543,558	-	-	-	1,543,558	577,010
Deferred revenue	-	1,858,885	-	-	1,858,885	2,160,993
Due to other funds	1,390,049	-	3,047,418	1,857,703	6,295,170	5,678,538
Other liabilities	1,151	-	-	-	1,151	1,151
Total liabilities	4,112,050	2,009,474	3,047,418	1,857,703	11,026,645	10,371,919
Fund Balances:						
Unreserved	2,959,291	(150,589)	1,414,433	(239,566)	3,983,569	6,152,604
Total fund balances	2,959,291	(150,589)	1,414,433	(239,566)	3,983,569	6,152,604
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,071,341	\$ 1,858,885	\$ 4,461,851	\$ 1,618,137		

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

Cost of capital assets	\$ 102,884,181	
Accumulated depreciation	(18,865,364)	84,018,817
Capital improvement projects		3,318,462
Accrual for unfunded retirement contributor		(19,176,195)
Long-term liabilities that are not due and payable in the current period and therefore are not reported as liabilities in the Funds.		
Long-term liabilities at year-end pertain to:		
Compensated absences		(1,601,510)
Total net assets - governmental activities		\$ 79,253,967

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenditures, and Changes in Fund Balance  
Governmental Funds  
For the Years Ended September 30, 2010 and 2009

	General Fund	Capital Projects Fund	Federal Funds	Non-Major Funds	2010	2009
<b>REVENUES:</b>						
Federal	\$ -	\$ -	\$ 41,688,947	\$ 952,515	\$ 42,641,462	\$ 28,706,673
Local	-	302,108	-	280,954	583,062	858,962
Charges for services	-	-	-	843,804	843,804	553,106
TOTAL REVENUES	-	302,108	41,688,947	2,077,273	44,068,328	30,118,741
<b>EXPENDITURES:</b>						
Current operations:						
Instructional programs:						
Regular	21,644,855	-	7,725,767	-	29,370,622	24,735,621
Special	1,421,785	-	7,144,630	-	8,566,415	8,190,772
Co-curricular	947,500	-	3,588,365	-	4,535,865	2,085,606
Student services	-	-	18,527,253	-	18,527,253	16,075,871
Total instructional programs	24,014,140	-	36,986,015	-	61,000,155	51,087,870
Supporting services:						
General administration	170,829	191,486	489,129	1,171,204	2,022,648	1,522,911
School administration	3,941,461	-	718,927	-	4,660,388	3,311,432
Individual programs	1,529,076	-	885,105	174,330	2,588,511	2,280,197
Other	3,729,692	-	1,144,144	601,036	5,474,872	3,373,562
Total supporting services	9,371,058	191,486	3,237,305	1,946,570	14,746,419	10,488,102
Community services	-	-	862,497	-	862,497	1,072,018
Capital outlays:						
Equipment and vehicles	-	-	394,732	134,180	528,912	1,156,176
Construction in progress	-	110,622	208,414	-	319,036	19,653
Total capital outlays	-	110,622	603,146	134,180	847,948	1,175,829
TOTAL EXPENDITURES	33,385,198	302,108	41,688,963	2,080,750	77,457,019	63,823,819
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(33,385,198)	-	(16)	(3,477)	(33,388,691)	(33,705,078)
OTHER FINANCING SOURCES:						
Operating transfers-in	31,219,656	-	-	-	31,219,656	34,601,764
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(2,165,542)	-	(16)	(3,477)	(2,169,035)	896,686
FUND BALANCE, beginning of year	5,124,833	(150,589)	1,414,449	(236,089)	6,152,604	5,255,918
FUND BALANCE, end of the year	\$ 2,959,291	\$ (150,589)	\$ 1,414,433	\$ (239,566)	\$ 3,983,569	\$ 6,152,604

See accompanying notes to basic financial statements.

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

Reconciliation of the Governmental Funds Statements of Revenues, Expenditures  
And Changes in Fund Balance with the District-wide Statement of Activities  
For the Years Ended September 30, 2010 and 2009

	2010	2009
Total net changes in fund balances - governmental funds	\$ (2,169,035)	\$ 896,686
Amounts reported for governmental activities in the statements of activities is different because of:		
Accrual for unfunded retirement contribution	(5,046,425)	(8,115,436)
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statements of net assets and allocated over their estimated useful lives as annual depreciation expense in the statements of activities. This is the amount by which capital outlays exceed depreciation in the period.</p>		
Capital outlays	\$ 847,948	
Depreciation expense	(1,914,025)	(1,066,077)
	\$ (8,281,537)	\$ (8,278,829)

See accompanying notes to basic financial statements.

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

Combining Balance Sheets - Non-major Funds  
September 30, 2010 and 2009

<u>ASSETS</u>	Local Donations Fund	CNMI Grants Fund	Indirect Costs Fund	<u>Total</u>	
				2010	2009
Receivables from CNMI	\$ -	\$ 8,588	\$ -	\$ 8,588	\$ 13,231
Advances, net	-	-	-	-	54,611
Due from other funds	<u>408,854</u>	<u>239,739</u>	<u>961,356</u>	<u>1,609,949</u>	<u>3,778,378</u>
	<u>\$ 408,854</u>	<u>\$ 248,327</u>	<u>\$ 961,356</u>	<u>\$ 1,618,537</u>	<u>\$ 3,846,220</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Vouchers payable	\$ -	\$ -	\$ -	\$ -	\$ 375
Accrued payroll and others	-	-	-	-	591,380
Deferred revenue	-	-	-	-	2,160,993
Due to other funds	<u>339,857</u>	<u>418,542</u>	<u>1,099,304</u>	<u>1,857,703</u>	<u>1,466,453</u>
Total liabilities	339,857	418,542	1,099,304	1,857,703	4,219,201
Fund balance (deficit):					
Reserved for encumbrances	<u>68,997</u>	<u>(170,215)</u>	<u>(137,948)</u>	<u>(239,166)</u>	<u>(372,981)</u>
	<u>\$ 408,854</u>	<u>\$ 248,327</u>	<u>\$ 961,356</u>	<u>\$ 1,618,537</u>	<u>\$ 3,846,220</u>

See accompanying notes to basic financial statements.

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

Combining Statements of Revenues, Expenditures, and Changes in Fund Balance  
Non-major Funds  
For the Years Ended September 30, 2010 and 2009

	Local Donations Fund	CNMI Grants Fund	Indirect Costs Fund	Total Non-major funds	
				2010	2009
<b>REVENUES:</b>					
Other local	\$ -	\$ 280,954	\$ 952,515	\$ 1,233,469	\$ 815,222
Charges for services	843,804	-	-	843,804	553,106
<b>TOTAL REVENUES</b>	<u>843,804</u>	<u>280,954</u>	<u>952,515</u>	<u>2,077,273</u>	<u>1,368,328</u>
<b>EXPENDITURES:</b>					
Supporting services:					
General administration	527,199	-	815,223	1,342,422	1,390,072
Other	290,289	310,747	-	601,036	279,950
<b>TOTAL EXPENDITURES</b>	<u>817,488</u>	<u>310,747</u>	<u>815,223</u>	<u>1,943,458</u>	<u>1,670,022</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	26,316	(29,793)	137,292	133,815	(301,694)
<b>FUND BALANCE (DEFICIT), beginning of year</b>	<u>42,681</u>	<u>(140,422)</u>	<u>(275,240)</u>	<u>(372,981)</u>	<u>(71,287)</u>
<b>FUND BALANCE (DEFICIT), end of year</b>	<u>\$ 68,997</u>	<u>\$ (170,215)</u>	<u>\$ (137,948)</u>	<u>\$ (239,166)</u>	<u>\$ (372,981)</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, 2010 and 2009

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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



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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

B. Basis of Presentation, Continued

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

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

PSS reports the following major governmental funds:

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

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

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

Specific revenues earmarked to finance particular programs and activities of the Public School System are accounted for in Non-major Funds. A summary of PSS' Non-major Funds as of September 30, 2010 and 2009 follows:

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

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

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(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.

The financial statements include certain prior-year summarized comparative information in total but not by plan. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended September 30, 2009, from which the summarized information was derived.

C. Measurement Focus and Basis of Accounting

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

*District-wide Fund Financial Statements*

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

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

C. Measurement Focus and Basis of Accounting, Continued

*Government Fund Financial Statements*

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

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

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

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.

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

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

D. Budgetary Data

PSS has no authority to impose taxes to generate revenue. PSS is a dependent school district, as revenue and expenditure authorizations come from the CNMI Legislature. The CNMI Legislative budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted by the 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 1.
2. By the fifth working day of November, the Commissioner of Education presents the budget to the Board of Education.
3. From November 15<sup>th</sup> to December 31<sup>st</sup>, revisions are made as appropriate and as approved by the BOE.
4. By the first working day of February, the budget is presented to the Senate, House and the Office of the Governor.

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

E. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

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

For purposes of the Statements of Net Assets and Cash Flows, 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 Statements of Net Assets.

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
Land and building improvements	15	years
Vehicles	5	years
Others	5	years

3. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as a non-current liability. The liability as of September 30, 2010 and 2009 were \$1,601,510 and \$1,172,223, respectively. No expenditure is reported for these amounts. 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, 2010 and 2009

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

5. Net Assets/Fund Balances

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

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

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(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, 2010 and 2009 pertains to unreimbursed advances between the general fund and the non-major funds.

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

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

F. New Accounting Standards

*New Accounting Standards*

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this Statement are effective for periods beginning after June 15, 2010. Management believes that the implementation of this Statement will not have a material effect on the financial statements of PSS.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement is to improve financial reporting by contributing to the GASB efforts to codify all generally accepted accounting principles (GAAP) for State and Local governments so that they derive from a single source. This Statement is effective upon issuance. The management of PSS believes that implementation of this Statement does not materially affect its financial statements.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This Statement incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for State and Local governments, and addresses three issues from the AICPA's literature - related party transactions, going concern considerations and subsequent events. This Statement is effective upon issuance. The management of PSS believes that implementation of this statement does not materially affect its 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, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

In December 2009, the GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors under Chapter 9 of the United States Bankruptcy Code. This Statement is effective beginning after June 15, 2010, with retroactive application for all periods presented during which the government was in bankruptcy.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010, with earlier application encouraged. The effect of the implementation of this Statement on the financial statements of PSS has not been determined.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.



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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(1) Summary of Significant Accounting Policies, Continued

F. New Accounting Standards, Continued

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

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, 2010 and 2009

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

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustments for 2010 and 2009 consist of several elements as follows:

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

<u>Description</u>	<u>2010</u>	<u>2009</u>
Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds:		
Total capital assets on district-wide statements in governmental activities column	\$102,884,181	\$102,355,269
Accumulated depreciation	<u>(18,865,364)</u>	<u>(16,951,339)</u>
Net capital assets	84,018,817	85,403,930
Capital improvement projects	3,318,462	2,999,426
Accrual for unfunded retirement contribution	(19,176,195)	(14,129,770)
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>(1,601,510)</u>	<u>(1,172,223)</u>
Total adjustment	<u>\$ 66,559,574</u>	<u>\$ 73,101,363</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, 2010 and 2009

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

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

The governmental statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the district-wide statement of activities. The total adjustments for 2010 and 2009 pertain to the following:

Description	2010	2009
Accrual for unfunded retirement contribution	\$(5,046,425)	\$(8,115,436)
Capital outlay expenditures recorded in the Statement of Activities.	847,948	1,175,829
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the Statement of Activities but not in the Fund Statements.	<u>(1,914,025)</u>	<u>(2,235,908)</u>
Total adjustments	<u><u>\$(6,112,502)</u></u>	<u><u>\$(9,175,515)</u></u>

(3) Detail Notes on all Funds

*Cash and Cash Equivalents*

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

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

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

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

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

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(3) Detail Notes on all Funds, Continued

*Cash and Cash Equivalents, continued*

For purposes of the Statement of Net Assets, cash is defined as amounts in demand deposits as well as short-term investments with a maturity date within three months from the date acquired. As of September 30, 2010 and 2009, the total amounts deposited with the Federal Deposit Insurance Corporation (FDIC) insured banks were \$1,308,905 and \$1,184,881, respectively. From these deposits, \$500,000 in each year is subject to coverage by FDIC with the remaining balance exceeding insurable limits. PSS requires collateralization of bank accounts, and the amounts in excess of insurable limits are collateralized by securities owned by the banks. PSS has not experienced any losses on these deposits.

*Accounts Receivable*

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

Receivables at the government-wide level at September 30, 2010 and 2009 are as follows:

Accounts receivable - September 30, 2010

	Receivable from CNMI	Receivable from Federal Agencies
General fund	\$ 3,837,814	\$ -
Federal fund	-	3,712,593
Non-major fund	8,588	-
Total	\$ 3,846,402	\$ 3,712,593

Accounts receivable - September 30, 2009

	Receivable from CNMI	Receivable from Federal Agencies
General fund	\$ 5,440,428	\$ -
Federal fund	-	3,651,389
Non-major fund	13,231	-
Other governmental activities	2,976	-
Total	\$ 5,456,635	\$ 3,651,389

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(3) Detail Notes on all Funds, Continued

*Travel Advances*

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

Travel advances of \$233,945 and \$115,900 as of September 30, 2010 and 2009, respectively, included in the Statement of Net Assets as part of advances, are reported net of an allowance for doubtful accounts of \$272,277 in both years.

*Capital Assets*

Capital asset activity for the years ended September 30, 2010 and 2009 were as follows:

September 30, 2010

<u>Governmental Activities</u>	<u>2009</u>	<u>Increase</u>	<u>Retirement</u>	<u>2010</u>
Capital assets not being depreciated:				
Land	\$36,647,850	\$ -	\$ -	\$36,647,850
Total capital assets not being depreciated	<u>36,647,850</u>	<u>-</u>	<u>-</u>	<u>36,647,850</u>
Capital assets being depreciated:				
Buildings and improvements	57,343,300	-	-	57,343,300
Vehicles	6,565,377	454,155	-	7,019,532
Other	<u>1,798,742</u>	<u>74,757</u>	<u>-</u>	<u>1,873,499</u>
Total capital assets being depreciated	<u>65,707,419</u>	<u>528,912</u>	<u>-</u>	<u>66,236,331</u>
Less accumulated depreciation for:				
Buildings and improvements	10,783,264	1,357,685	-	12,140,949
Vehicles	4,573,888	386,681	-	4,960,569
Other	<u>1,594,187</u>	<u>169,659</u>	<u>-</u>	<u>1,763,846</u>
Total accumulated depreciation	<u>16,951,339</u>	<u>1,914,025</u>	<u>-</u>	<u>18,865,364</u>
Total capital assets being depreciated, net	<u>48,756,080</u>	<u>(1,385,113)</u>	<u>-</u>	<u>47,370,967</u>
Governmental activity capital assets, net	<u>\$85,403,930</u>	<u>\$(1,385,113)</u>	<u>\$ -</u>	<u>\$84,018,817</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, 2010 and 2009

(3) Detail Notes on all Funds, Continued

*Capital Assets, Continued*

September 30, 2009

<u>Governmental Activities</u>	<u>2008</u>	<u>Increase</u>	<u>Retirement</u>	<u>2009</u>
Capital assets not being depreciated:				
Land	\$36,647,850	\$ _____	\$ _____	\$36,647,850
Total capital assets not being depreciated	<u>36,647,850</u>	<u>_____</u>	<u>_____</u>	<u>36,647,850</u>
Capital assets being depreciated:				
Buildings and improvements	57,343,300	-	-	57,343,300
Vehicles	5,460,158	1,105,219	-	6,565,377
Other	<u>1,747,785</u>	<u>50,957</u>	<u>_____</u>	<u>1,798,742</u>
Total capital assets being depreciated	<u>64,551,243</u>	<u>1,156,176</u>	<u>_____</u>	<u>65,707,419</u>
Less accumulated depreciation for:				
Buildings and improvements	9,425,579	1,357,685	-	10,783,264
Vehicles	3,872,671	701,217	-	4,573,888
Other	<u>1,417,181</u>	<u>177,006</u>	<u>_____</u>	<u>1,594,187</u>
Total accumulated depreciation	<u>14,715,431</u>	<u>2,235,908</u>	<u>_____</u>	<u>16,951,339</u>
Total capital assets being depreciated, net	<u>49,835,812</u>	<u>(1,079,732)</u>	<u>_____</u>	<u>48,756,080</u>
Governmental activity capital assets, net	<u>\$86,483,662</u>	<u>\$(1,079,732)</u>	<u>\$ _____</u>	<u>\$85,403,930</u>

*Capital Improvements Projects in Progress*

Changes in construction in progress for the years ended September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
At beginning of year	\$ 2,999,426	\$ 2,979,773
Additions	319,036	19,653
Transferred to fixed assets	<u>_____</u>	<u>_____</u>
At end of year	<u>\$ 3,318,462</u>	<u>\$ 2,999,426</u>

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

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(3) Detail Notes on all Funds, Continued

*Deferred Revenues*

Changes in deferred revenues for the years ended September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
At beginning of year	\$ 2,160,993	\$ -
Additions	-	2,204,733
Expended	<u>(302,108)</u>	<u>(43,740)</u>
At end of year	<u>\$ 1,858,885</u>	<u>\$ 2,160,993</u>

In fiscal year 2009, the CNMI Government transferred capital improvement funds to PSS totaling \$2,204,733, of which, \$302,108 and \$43,740 were expended in fiscal year 2010 and 2009, respectively.

*Retirement Plan – Defined Benefit Plan*

PSS contributes to the Northern Mariana Islands Retirement Fund (NMIRF), a defined benefit, cost-sharing multi-employer pension plan established and administered by the CNMI. The NMIRF issues a stand-alone financial report, which may be downloaded from its website (<http://www.nmiretirement.com>). NMIRF provides retirement, security and other benefits to employees of the CNMI government and CNMI agencies, instrumentalities and public corporations, and to their spouses and dependents. Benefits are based on the average annual salary over the term of credited service. Generally, benefits vest after three years of credited service. Members are eligible for early retirement after 10 years of vesting service and are at least 52 years of age. Members, who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. CNMI Public Law 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established.

Based on the actuarial valuation as of October 1, 2008 issued in May 2010, the actuarially determined contribution rate for the fiscal year ended September 30, 2009 was 51.0578% of covered payroll and funding requirements for employees are 8.5% and 11.0% of covered payroll for Class I and Class II members, respectively.

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

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(3) Detail Notes on all Funds, Continued

*Retirement Plan – Defined Benefit Plan, Continued*

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

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

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

<u>Fiscal Year</u> <u>Ended</u>	<u>Required</u> <u>Contribution</u>	<u>Percentage of Required</u> <u>Contribution Contributed</u>
9/30/10	\$ 8,492,643	38%
9/30/09	\$ 10,726,241	24%
9/30/08	\$ 9,772,684	38%
9/30/07	\$ 7,701,162	100%

Payable to retirement fund amounted to \$19,389,575 and \$14,129,770 as of September 30, 2010 and 2009, respectively. This obligation will be funded through allotment from the CNMI Government as employees retire.

*Retirement Fund – Defined Contribution*

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

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



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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(3) Detail Notes on all Funds, Continued

*Retirement Fund – Defined Contribution, Continued*

As of September 30, 2010 and 2009, the market value of the defined contribution plan of PSS employees are as follows:

	<u>2010</u>	<u>2009</u>
Market value, beginning	\$ 3,308,635	\$ 1,691,236
Employee contributions	1,421,828	969,224
Employer contributions	567,946	388,464
Transfers and rollovers	32,090	135,700
Withdrawals	(343,393)	(137,135)
Earnings	30,746	55,802
Unrealized gain/loss, net	360,073	238,171
Expenses	(38,410)	(20,457)
Other activities	<u>–</u>	<u>(12,370)</u>
Market value, ending	<u>\$ 5,339,515</u>	<u>\$ 3,308,635</u>

*Medical and Life Insurance Benefits*

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

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(3) Detail Notes on all Funds, Continued

*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.

*Transfer-in from CNMI Government*

The CNMI Government appropriated \$31,219,656 and \$34,601,764 for PSS' operational use for the fiscal years ended September 30, 2010 and 2009, respectively. Receivables from CNMI Government under the general fund as of September 30, 2010 and 2009 are summarized as follows:

	2010	2009
Receivable, beginning	\$ 5,440,428	\$ 5,281,845
Appropriation	31,219,656	34,601,764
State Fiscal Stabilization Fund	-	(1,469,240)
Direct payments to for utilities:		
Prior year appropriation	(1,000,000)	-
Current appropriation	(2,443,880)	-
Collections:		
Prior year appropriation	(1,688,300)	-
Current appropriation	<u>(27,690,090)</u>	<u>(32,973,941)</u>
Receivable, ending	<u>\$ 3,837,814</u>	<u>\$ 5,440,428</u>

Of the prior years' appropriations receivable balance as of September 30, 2010 and 2009, \$2,752,128 and \$1,998,654, respectively, may not be collectible.

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(3) Detail Notes on all Funds, Continued

*Non-current Liabilities*

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

	Balance 9/30/2009	Increase	Decrease	Balance 9/30/2010	Due in One Year	Noncurrent
Retirement Contributions payable	\$ 14,129,770	\$ 8,492,643	\$ (3,446,318)	\$ 19,176,095	\$ -	\$ 19,176,095
Compensated Absences	<u>1,172,223</u>	<u>876,351</u>	<u>(447,064)</u>	<u>1,601,510</u>	<u>500,000</u>	<u>1,101,510</u>
Total Noncurrent liabilities	<u>\$ 15,301,993</u>	<u>\$ 9,368,994</u>	<u>\$ (3,893,382)</u>	<u>\$ 20,777,605</u>	<u>\$ 500,000</u>	<u>\$ 20,277,605</u>

	Balance 9/30/2008	Increase	Decrease	Balance 9/30/2009	Due in One Year	Noncurrent
Retirement Contributions payable	\$ 6,014,334	\$ 10,726,241	\$ (2,610,805)	\$ 14,129,770	\$ -	\$ 14,129,770
Compensated Absences	<u>2,267,363</u>	<u>658,598</u>	<u>(1,753,738)</u>	<u>1,172,223</u>	<u>500,000</u>	<u>672,223</u>
Total Noncurrent liabilities	<u>\$ 8,281,697</u>	<u>\$ 11,384,839</u>	<u>\$ (4,364,543)</u>	<u>\$ 15,301,993</u>	<u>\$ 500,000</u>	<u>\$ 14,801,993</u>

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

*Operating Lease*

PSS leases its office space from the NMIRF on a yearly basis. Rent expense was \$202,000 for the fiscal years ending September 30, 2010 and 2009.

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(4) Contingencies

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

Disallowances and sanctions as a result of these audits may become liabilities of PSS and the general fund would be liable for the return of such funds. Questioned cost as of September 30, 2010 and 2009 were \$687,017 and \$293,717, respectively. No liability, which may arise from the ultimate outcome of this matter, has been provided for in the accompanying financial statements.

(5) Commitments

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

(6) Risk Management

The CNMI government is a self-insured entity. The government has limited its general liability to individuals to \$100,000 by statute. For this reason, the government does not maintain any insurance on its buildings, or on its employees. At some future date, PSS may insure some of its assets, as an autonomous agency, it is not required to follow the CNMI Government's self-insurance policy. PSS has not experienced any losses for the years ended September 30, 2010 and 2009.

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

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

(A Component Unit of the CNMI Government)

Notes to the Basic Financial Statements  
September 30, 2010 and 2009

(7) Economic Dependency

PSS receives a substantial amount of its support from Federal and local governments. In fiscal year ending September 30, 2010, 57% and 43% of total revenues were received from local appropriation and federal grants, respectively; while in fiscal year ending September 30, 2009, 53% and 44% of total revenues were received from local appropriation and federal grants, respectively. A significant reduction in the level of this support, if this were to occur, may have an adverse effect on PSS' programs and activities.

(8) Fair Value of Financial Instruments

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

(9) Subsequent Events

PSS has evaluated subsequent events from September 30, 2010 through March 28, 2011, the date of financial statements were available to be issued. PSS did not note any subsequent events requiring disclosure or adjustment to the accompanying financial statements.

**SUPPLEMENTARY INFORMATION**

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**BUDGETARY ANALYSIS**

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**Year Ended September 30, 2010**

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

Required Supplementary Information  
Statement of Revenues, Expenditures  
and Changes in Fund Balance - Budget and Actual  
Budget (GAAP Basis) and Actual - General Fund  
For the Year Ended September 30, 2010

	General Fund				Variance Favorable (Unfavorable)
	Budget		Final	Actual	
	Original	Revision			
<b>EXPENDITURES:</b>					
Personnel	\$ 25,436,526	\$ -	\$ 25,436,526	\$ 26,064,779	\$ (628,253)
Utilities	2,918,775	-	2,918,775	3,729,692	(810,917)
All other	2,864,356	-	2,864,356	3,590,727	(726,371)
Textbooks	<u>312,196</u>	<u>-</u>	<u>312,196</u>	<u>-</u>	<u>312,196</u>
 Total expenditures	 <u>31,531,853</u>	 <u>-</u>	 <u>31,531,853</u>	 <u>33,385,198</u>	 <u>(1,853,345)</u>
 OPERATING TRANSFERS-IN	 <u>31,531,853</u>	 <u>-</u>	 <u>31,531,853</u>	 <u>31,531,853</u>	 <u>-</u>
 Excess of revenues and other financing sources over expenditures and other financing uses	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 1,853,345</u>	 <u>\$ (1,853,345)</u>

RECONCILIATION OF BUDGET TO GAAP BASIS

Appropriation	\$ 31,531,853
Payment of prior year appropriation	<u>1,100,000</u>
2010 Budget GAAP	32,631,853
2010 Actual expenditures	<u>33,385,198</u>
 Unfavorable variance	 <u>\$ (753,345)</u>

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

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**SINGLE AUDIT REPORTS**

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**Year Ended September 30, 2010**



J. Scott Magliari  
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

**SAIPAN OFFICE:**

Family Building, Suite 201  
PMB 297 Box 10000  
Saipan, MP 96950  
Tel Nos. (670) 233-1837/0456  
Fax No. (670) 233-8214  
Email: magliari@pticom.com

**GUAM OFFICE:**

Reflection Center, Suite 204  
P.O. Box 12734  
Tamuning, GU 96931  
Tel Nos. (671) 472-2680/2687  
Fax No. (671) 472-2686  
Email: jsmguam@ite.net

**PALAU OFFICE:**

PIDC Apartment No. 11  
P.O. Box 1266  
Koror, PW 96940  
Tel No. (680) 488-8615  
Fax No. (680) 488-8616  
Email: coconutrum@palaunet.com

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

The Board of Education  
Public School System

I have audited the financial statements of the Public School System (PSS), as of and for the year ended September 30, 2010 and have issued my report thereon dated March 28, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing my audit, I considered PSS' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the PSS' internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

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 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. I consider Finding Nos. 10-01 through 10-03, 10-06 and 10-08 described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

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. I consider the deficiencies described in Finding Nos. 10-05, 10-12 and 10-13 reported in the Schedule of Findings and Questioned Costs to be significant deficiencies.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PSS' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding Nos. 10-03, 10-04, 10-07 and 10-09 through 10-11.

PSS' responses to the findings identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit PSS' response and, accordingly, I express no opinion on it.

I also noted certain additional matters that I reported to management of PSS in a separate letter dated March 28, 2011.

This report is intended solely for the information and use of the management of PSS, the Board of Education, Federal awarding agencies, the cognizant audit and other Federal agencies and is not intended to be and should not be used by anyone other than these specified parties. This report is also a matter of public record.

  
Saipan, Commonwealth of the Northern Mariana Islands  
March 28, 2011

J. Scott Magliari  
COMPANY

CERTIFIED PUBLIC ACCOUNTANT

**SAIPAN OFFICE:**

Family Building, Suite 201  
PMB 297 Box 10000  
Saipan, MP 96950  
Tel Nos. (670) 233-1837/0456  
Fax No. (670) 233-8214  
Email: magliari@pticom.com

**GUAM OFFICE:**

Reflection Center, Suite 204  
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PIDC Apartment No. 11  
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Tel No. (680) 488-8615  
Fax No. (680) 488-8616  
Email: coconutrum@palaunet.com

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Education  
Public School System

Compliance

I have audited the compliance of the Public School System (PSS) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2010. The PSS' major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the PSS' management. My responsibility is to express an opinion on PSS' compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal program occurred. An audit includes examining, on a test basis, evidence about PSS' compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on PSS' compliance with those requirements.

As described in Finding No. 10-14 in the accompanying Schedule of Findings and Questioned Costs, PSS did not comply with the requirements regarding Allowed Cost and Cost Principles, to its Special Education Grant (CFDA No. 84.027) and Consolidated Grants to Insular Areas (CFDA No. 84.922). Compliance with such requirements is necessary, in my opinion, for PSS to comply with the requirements applicable to these programs.

In my opinion, except for the noncompliance described in the preceding paragraph, PSS complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010.

## Internal Control over Compliance

Management of PSS is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered PSS' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of PSS' internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*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. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding No. 10-14 to be a material weakness.


*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. I consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding Nos. 10-13 and 10-15 to be significant deficiencies.

PSS' responses to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. I did not audit PSS' responses and, accordingly, I express no opinion on the responses.

Schedule of Expenditures of Federal Awards

I have audited the accompanying financial statements of governmental activities, each major fund, and the aggregating fund information of the PSS, as of and for the year ended September 30, 2010, and have issued my report thereon dated March 28, 2011. My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise PSS' basic financial statements. This schedule is the responsibility of the PSS' management. The accompanying Schedule of Expenditures of Federal Awards (pages 48 through 50) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, except as described in the aforementioned report, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of PSS, the Board of Education, Federal awarding agencies, pass-through entities and the cognizant audit and other Federal agencies and is not intended to be and should not be used by anyone other than these specified parties. This report is also a matter of public record.

  
Saipan, Commonwealth of the Northern Mariana Islands  
March 28, 2011

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

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2010

Federal Grantor/Program Title	CFDA Number	Receivable From Grantor (Deferred Revenue) at 09/30/09	Adjustments	Receipts FY 2010	Expenditures FY 2010	Receivable From Grantor (Deferred Revenue) at 09/30/10
<b><u>U.S. Department of Education</u></b>						
<b><u>Direct Programs</u></b>						
Consolidated Grant to Insular Areas	84.922	\$ 224,584	\$ -	\$ (9,326,557)	\$ 9,316,588	\$ 214,615
Consolidated Grant - ARRA	84.402	-	-	(967,812)	974,786	6,974
State Fiscal Stabilization Fund - Education State Grants - ARRA	84.394	1,464,014	(67,852)	(8,088,940)	7,622,184	929,406
Education Jobs Fund - ARRA	84.410	-	-	(1,053,753)	2,400,725	1,346,972
Fund for the Improvement of Education/ Christa McAuliffe Grant	84.215	(3,848)	-	-	-	(3,848)
Freely Associated States Education Grant	84.256	148,315	-	(1,109,816)	1,067,040	105,539
Literacy through School Libraries	84.364	4,008	-	(18,511)	14,503	-
Special Education Grants to States	84.027	347,849	-	(5,587,139)	5,453,530	214,240
Special Education Grants to States - ARRA	84.027	5,226	-	(109,850)	104,843	219
Special Education - State Personnel Development - ARRA	84.323	-	-	(14,146)	14,146	-
Special Education-Grants for Infants and Families	84.181	40,260	-	(534,830)	513,581	19,011
Common Core	84.000	(41,367)	-	-	32,861	(8,506)
Byrd Honors Scholarships	84.185	(1,500)	-	(61,500)	63,000	-
<b>Total Direct Programs</b>		<b>2,187,541</b>	<b>(67,852)</b>	<b>(26,872,854)</b>	<b>27,577,787</b>	<b>2,824,622</b>
<b><u>Pass Through the CNMI Government</u></b>						
State Fiscal Stabilization Fund - Government Services, Recovery Act - ARRA	84.397	-	-	(1,612,496)	1,740,858	128,362
<b>Total Pass Through Program</b>		<b>-</b>	<b>-</b>	<b>(1,612,496)</b>	<b>1,740,858</b>	<b>128,362</b>
<b>Total U.S. Department of Education</b>		<b>2,187,541</b>	<b>(67,852)</b>	<b>(28,485,350)</b>	<b>29,318,645</b>	<b>2,952,984</b>
Balance carried forward		\$ 2,187,541	\$ (67,852)	\$ (28,485,350)	\$ 29,318,645	\$ 2,952,984

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

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2010

Federal Grantor/Program Title	CFDA Number	Receivable From Grantor (Deferred Revenue) at 09/30/09	Adjustments	Receipts FY 2010	Expenditures FY 2010	Receivable From Grantor (Deferred Revenue) at 09/30/10
Balance brought forward		\$ 2,187,541	\$ (67,852)	\$ (28,485,350)	\$ 29,318,645	\$ 2,952,984
<b><u>U.S. Department of Agriculture</u></b>						
<b><u>Direct Programs</u></b>						
National School Lunch Program	10.555	279,883	-	(9,252,210)	9,262,041	289,714
FNS TEFAP Food Entitlement Fund - ARRA	10.569	-	-	(15,755)	15,755	-
FNS TEFAP Admin - ARRA	10.568	-	-	-	7,626	7,626
Total U.S. Department of Agriculture		<u>279,883</u>	<u>-</u>	<u>(9,267,965)</u>	<u>9,285,422</u>	<u>297,340</u>
<b><u>U.S. Department of Health and Human Services</u></b>						
<b><u>Direct Programs</u></b>						
Head Start	93.600	170,392	-	(1,852,342)	1,791,908	109,958
Head Start - ARRA	93.600	-	-	(100,178)	100,178	-
Child Care and Development Block Grant	93.575	(6,125)	-	-	-	(6,125)
Aids-HIV	93.938	3,376	-	(72,791)	70,826	1,411
Total U. S. Department of Health and Human Services		<u>167,643</u>	<u>-</u>	<u>(2,025,311)</u>	<u>1,962,912</u>	<u>105,244</u>
<b><u>U.S. Department of Transportation</u></b>						
<b><u>Direct Programs</u></b>						
Federal Transit Bus	20.509	616,494	-	(1,139,144)	885,105	362,455
Total U.S. Department of Transportation		<u>616,494</u>	<u>-</u>	<u>(1,139,144)</u>	<u>885,105</u>	<u>362,455</u>
<b><u>Other Direct Programs</u></b>						
Americorps	94.006	14,568	-	(237,400)	230,347	7,515
Total other Agencies		<u>14,568</u>	<u>-</u>	<u>(237,400)</u>	<u>230,347</u>	<u>7,515</u>
Balance carried forward		\$ 3,266,129	\$ (67,852)	\$ (41,155,170)	\$ 41,682,431	\$ 3,725,538

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

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2010

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Receivable From Grantor (Deferred Revenue) at 09/30/09</u>	<u>Adjustments</u>	<u>Receipts FY 2010</u>	<u>Expenditures FY 2010</u>	<u>Receivable From Grantor (Deferred Revenue) at 09/30/10</u>
Balance brought forward		\$ 3,266,129	\$ (67,852)	\$ (41,155,170)	\$ 41,682,431	\$ 3,725,538
<b><u>Department of Interior</u></b>						
<b><u>Pass Through the CNMI Government</u></b>						
Economic, Social and Political Development of the Territories - Compact Impact Grant - School Renovation	15.875	385,260	-	(404,737)	6,532	(12,945)
Total U.S. Department of Interior		385,260	-	(404,737)	6,532	(12,945)
<b>Total Federal Grants Fund</b>		<b>\$ 3,651,389</b>	<b>\$ (67,852)</b>	<b>\$ (41,559,907)</b>	<b>\$ 41,688,963</b>	<b>\$ 3,712,593</b>



**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, 2010

(1) Scope of Review

The Public School System (PSS) was established as a public non-profit corporation by the Commonwealth of the Northern Mariana Islands (CNMI) Public Law No. 6-10, effective October 25, 1988 and began operations on October 1, 1988. All significant operations of PSS are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior's Office of the Inspector General has been designated as PSS' cognizant agency for the Single Audit.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

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

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

b. Indirect Cost Allocation

PSS negotiated an indirect cost plan with the U.S. Department of Education for fiscal year 2010. The approved rates are as follows:

Restricted rate	4.30%
-----------------	-------

PSS have not yet received the approved unrestricted indirect cost rate that is applicable to all programs except the Department of Education programs and is based on total direct salaries and wages, including fringe benefits.

The restricted rate is applicable to only Department of Education programs and is based on total direct costs, less capital expenditures and passthrough funds. Passthrough 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, 2010

**SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued: Qualified for the  
General Fund

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?   X   yes        no

Federal Awards

Internal control over major programs:

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

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

Qualified for

84.922 Consolidated Grant to Insular Areas

84.027 Special Education Grants to States

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?   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, 2010

**SECTION I – SUMMARY OF AUDITOR’S RESULTS, Continued**

Federal Awards

Identification of major programs:

<u>CFDA Number</u>	<u>Description</u>	<u>Federal Expenditures</u>
84.922	Consolidated Grant to Insular Areas	\$ 9,316,588
84.402	Consolidated Grant to Insular Areas - ARRA	974,786
10.555	National School Lunch Program	9,262,041
84.394	State Fiscal Stabilization Fund Education State Grants - ARRA	7,622,184
84.397	State Fiscal Stabilization Fund Government Services - ARRA	1,740,858
84.027	Special Education Grants to States	5,453,530
84.027	Special Education Grants to States - ARRA	104,843
84.410	Education Jobs Fund – ARRA	2,400,725
93.600	Head Start Program	1,791,908
93.600	Head Start Program – ARRA	<u>100,178</u>
	Total Federal Expenditures–Major Programs	<u>\$ 38,767,641</u>
	Percentage of total awards tested	<u>93%</u>

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

\$ 1,250,669

3% of the total awards expended

Auditee qualified as low-risk auditee

\_\_\_\_\_yes    X 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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-01, Bank Reconciliations**

**Criteria:**

Pursuant to 34 CFR PART 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, § 80.20 (b)(3), Internal Control, an effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes. In line with this, preparation of monthly reconciliations of cash accounts should be performed on a timely basis.

**Condition:**

The following were noted:

- a. The bank reconciliations for nine accounts were not timely prepared.
- b. The bank reconciliations for the following accounts have unaccounted difference as follows:

<u>Account Name</u>	<u>Unreconciled</u>
Bank of Guam – General Fund	\$ 9,251.91
Bank of Guam – Payroll	<u>17,252.47</u>
	<u>\$ 26,504.38</u>

**Cause:**

PSS experienced a turnover of key employees and lacked qualified personnel in the Fiscal and Budget Division during FY 2010.

**Effect:**

Although the differences are immaterial, PSS is unable to ascertain the propriety of the General Fund and the Payroll Fund cash account balances as of September 30, 2010.

**Recommendation:**

PSS should ensure that all cash accounts are properly reconciled on a timely manner.

**Auditee Response:**

PSS concurs with this finding and will reconcile all bank accounts in a timely manner. The General Fund and the Payroll funds will be reconciled monthly, while the other 7 accounts will be reconciled quarterly. Furthermore, PSS will hire a General Ledger Accountant by May 2011.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-02, Accrual**

**Criteria:**

Pursuant to Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the district-wide financial statements, consisting of a statement of net assets and a statement of activities should be prepared using the economic resources measurement focus and the accrual basis of accounting.

**Condition:**

PSS failed to recognize the following significant accounting transactions:

a. Revenue from the CNMI Government Appropriation

Appropriations Revenue per general ledger		\$ 25,988,903
Appropriations received:		
Direct transfers	\$ 27,690,090	
Payment of utilities directly to the Commonwealth Utilities Corporation	2,443,880	30,133,970
Unrecorded revenues		\$ 4,145,067

b. Accrual of Receivable from Fiscal Year 2010 Appropriations

Appropriation		\$ 31,219,656
Collections	30,133,970	
Unrecorded Appropriations Receivable		\$ 1,085,686

c. Accrual of NMI Retirement Fund contributions

Unfunded retirement contributions:

Per general ledger		\$ 13,995,406
Per Audit		
Beginning balance	\$ 14,129,770	
2010 contribution at 37.3909%	8,492,643	
Remittances for:		
2010 contributions	(3,311,854)	
Prior years' contributions	(134,364)	19,176,195
		\$ 5,180,789

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-02, Accrual, Continued**

**Cause:**

PSS experienced a turnover of key employees and lacked qualified personnel in the Fiscal and Budget Division during FY 2010.

**Effect:**

Although the accruals have been corrected by audit adjusting journal entries, this weakness in internal control over financial reporting does not allow PSS to produce accurate basic financial statements on a monthly basis.

**Recommendation:**

Current organizational structure of the PSS Fiscal and Budget office does not have a general ledger accountant or equivalent position. PSS should review its Fiscal and Budget Department's staffing to ensure that there is a position that could perform the key control procedures such as the preparation of reconciliations, review of general ledger balances and preparation of journal entries timely, without conflict with their function.

PSS may also consider hiring a qualified accountant with government accounting experience and related education and training.

**Auditee Response:**

PSS concurs with this finding and will hire a general ledger accountant by May 2011 to perform the key control procedures that includes the preparation of reconciliations, review of general ledger balances and preparation of adjusting journal entries.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-03, Use of Restricted Cash**

**Criteria:**

Pursuant to CNMI Public Law 16-10, the available fund balance at the end of the Indenture Trust Agreement for the CNMI PSS CIP General Obligations Bonds (GO Bonds) shall be transferred to PSS under the expenditure authority of the Commissioner of Education for classroom repairs, renovations and parking lot paving activities; and related purposes.

Notwithstanding any provision of law, the funds appropriated under this Act shall not be subject to fiscal year limitation and shall not be reprogrammed for any other purpose other than the intended purpose of this Act.

**Condition:**

In Fiscal year 2009, the CNMI Government transferred the available balance from the GO Bonds amounting to \$2,204,732 to PSS. The amount was deposited to PSS' special fund cash accounts, where PSS maintains its restricted cash.

Summarized below are the changes in the GO Bond fund balance:

Transfer in	\$ 2,204,733
Expenditures:	
Building improvements	(124,821)
Construction in progress	<u>(221,027)</u>
Balance	1,858,885
Restricted Cash balance	<u>30,253</u>
Withdrawals not authorized under PL 16-10	<u>\$ 1,828,632</u>

As of September 30, 2010, the Special Fund checking account balance was \$30,253. It appears that PSS made unauthorized withdrawals from the restricted cash balance totaling \$1,828,632 as of September 30, 2010.

**Cause:**

PSS did not receive its funding as required by the Appropriations Act.

**Effect:**

PSS is not in compliance with the provisions of PL 16-10 and is in violation of the Indenture Trust Agreement for the GO Bonds, and expended restricted funds for unallowable expenses.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-03, Use of Restricted Cash**

**Recommendation:**

PSS should ensure that restricted assets are expended only for its intended use.

**Auditee Response:**

PSS concurs with this finding about the transfer of funds from PL 16-10 to cover the shortfall from the Appropriation received. PSS will abide with the requirements of the Public Laws and is restoring the borrowed funds so that the restricted funds may be used for its intended purposes.



**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-04, Contract Change Order**

**Criteria:**

Change orders must be done in accordance with the provision in the procurement contracts.

**Condition:**

A change order of \$39,000 was approved for Contract No. 65956 for a professional development service provider, with an original contract price of \$170,000. This change order, which represents 23% of the original contract amount, exceeded the allowable 10% variance pursuant to the contract.

**Cause:**

There is a lack of internal control for monitoring vendor compliance with contractual terms and conditions and with PSS procurement policies and procedures. Furthermore, PSS procurement regulations do not contain guidelines for processing change orders.

**Effect:**

The change order for Contract No. 65956 is not in compliance with the terms of the contract.

**Recommendation:**

PSS should ensure that compliance with its procurement policies and procedures.

**Auditee Response:**

On December 28, 2010, PSS Procurement Officer has aligned the change order regulation for PSS with the CNMI Central Government procedure allowing change order up to 25% of the original contract price. PSS will comply with the contract change order procedures as delineated by the PSS Procurement Officer.

**Auditor Response:**

PSS changed its procurement policy subsequent to this finding. Therefore, PSS is still not in compliance with its procurement rules and regulation for this change order.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-05, Use of Credit Cards**

Criteria:

Pursuant to PSS' policies and procedures, all disbursements shall be through issuance of checks. PSS' credit card may only be used for on-line purchases or other purchases as approved following PSS procurement policies and procedures.

Condition:

- a. Three or 100% of the three credit card statements selected for testing included purchases, other than airline tickets, that were not supported by purchase order.

<u>Statement Date</u>	<u>Account No.</u>	<u>Transaction Date</u>	<u>Amount</u>	<u>Description</u>
Feb 25, 2010	31002	Feb 2, 2010	\$ 1,575	Food
Feb 25, 2010	31001	Feb 2, 2010	396	Food
Apr 26, 2010	31002	Apr 23, 2010	<u>1,904</u>	Food
			<u>\$ 3,875</u>	

- b. On one of the three credit card statements the purchase order (PO) was approved after the fact and there was no signed ratification for the after-the-fact purchase request.

<u>Statement Date</u>	<u>PO Number</u>	<u>Transaction Date</u>	<u>Amount</u>	<u>Description</u>
Mar 12, 2010	66963	Feb 23, 2010	\$ 1,103	Food

- c. The registration fee for travel advance 67842 for employee No. 10007 was charged to the Organization credit card. This registration fee was included in the travel advance provided to the traveler.

Cause:

PSS does not have formal credit card policies and procedures in place.

Effect:

PSS is not in compliance with its procurement policies and procedure for these transaction paid using the organization's credit card. Unrecorded or unauthorized disbursements could be incurred and not be detected in a time manner.

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

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-05, Use of Credit Cards, Continued**

**Recommendation:**

PSS should review and revise its policies and procedures over the use of its credit card and implement more stringent internal control monitoring procedures to safeguard assets susceptible to misuse, abuse and potential fraud.

**Auditee Response:**

PSS concurs with this finding. In February 2011, PSS adopted new policies and procedures regarding the use of the credit card.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-06, Journal Entries**

**Criteria:**

Pursuant to OMB Circular A-21, all accounting entries should be properly documented and approved.

Furthermore, pursuant to 34 CFR PART 74 §74.53, financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report.

**Condition:**

- a. For two or 20% of the ten journal vouchers selected for testing, the original approved journal voucher was not provided for audit.
- b. The supporting documents for Journal entry No. 14384 were not on file. This entry transferred payroll from the general fund to the following federal programs:
  - \$343,300 transferred from business unit 101055 (Marianas High School Local Appropriation) to business unit 1041AP0CSR (IAP/T5 - Class Size Reduction) from the Consolidated Grants to Insular Areas.
  - \$50,000 transferred from business unit 101133 (Special Education Local Appropriation) to business unit 0983SE9SPE (SPED Handicapped Children LEA) from the Special Education Grants to States.

**Cause:**

PSS does not maintain an up-to-date document filing system and does not have a formal document storage and retrieval system in place.

**Effect:**

PSS is not in compliance with OMB Circular A-21 and the retention and access requirements for records pursuant to 34 CFR PART 74 or the Administrative Grants and Agreements with Institution of Higher Education, Hospitals and other Non-Profit Organization.

**Recommendation:**

PSS should ensure that all journal entries are substantiated, properly documented and approved to comply with OMB Circular A-21. Furthermore, PSS should develop a formal document storage and retrieval system to ensure that document are retained in accordance with 34 CFR PART 74.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-06, Journal Entries, Continued**

**Auditee Response:**

PSS concurs with this finding. Effective March 2011, PSS Fiscal and Budget is implementing a scan and file system, wherein all accounting documents and supporting documents will be electronically filed and stored in multiple locations.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-07, Medical Examination at the Start of Contract for New Employees**

**Criteria:**

PSS Regulation for Employment of Non-Certified Personnel §2103 and PSS Regulation for Employment of Certified Personnel §3103, requires employees to undergo physical examination at a health care provider acceptable to the HRO prior to the commencement of the contract term.

**Condition:**

For 11 or 28% of the 40 employee files selected for independent review and inspection, personnel records did not have the physical examination record on file.

**Effect:**

PSS is not in compliance with its Human Resources policies and procedures. Furthermore, health and safety of students and personnel may be compromised and at risk.

**Cause:**

There is a lack of monitoring controls to ensure that all requirements for hiring are completed and properly documented on-file prior to the effective date of employment contract.

**Recommendation:**

PSS should strengthen its Human Resources policies and procedures to ensure that all requirements for employee hiring are completed, properly documented and retained on file prior to the effective date of employment. Furthermore, document retention and filing should be improved to facilitate ease of file retrieval.

**Auditee Response:**

PSS concurs with this finding. The Public School System has instituted, on October 2010, a procedure to safeguard and ensure that all required documents are on file, i.e. police, health certificate, copy of degree and etc. A checklist of all required documents is appended to the contract to ascertain receipt of the required documents. In October and November 2010, the PSS HR Director and Commissioner of Education issued separate memorandum to all programs and school principals emphasizing the need to for all employees to have all required documents submitted before employment contracts, whether new or renewal, is approved. New hires are not allowed to report to work without contracts; current employees will be given a 90-day notice of contract non-renewal for failing to submit the required documents.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-08, Application Evaluation and Assessment Form**

**Criteria:**

Pursuant to PSS recruitment procedures, an Application Evaluation and Assessment Form must be prepared for each applicant.

**Condition:**

- a. For 5 or 12.5% of the 40 employee files selected for independent review and inspection, personnel records did not have the Application Evaluation and Assessment Form on-file.
- b. For 30 of 85.7% of the 35 employee files selected that have the Application Evaluation and Assessment Form on-file, the form was not properly summarized and not all information were filled-out.

**Cause:**

There is a turnover in a key position at the Human Resources Department during FY 2010.

**Effect:**

PSS is not in compliance with its Human Resources policies and procedures. The pay rate level maybe inaccurate if the Application Evaluation and Assessment Form is not properly summarized.

**Recommendation:**

The Application Evaluation and Assessment Form is an important tool for hiring official to assess the qualifications of applicant for interview. This also serves as the basis for the pay rate level.

PSS should ensure that the Application Evaluation and Assessment Form is properly completed and summarized to support the eligibility listing provided by the Office of Human Resources to the requesting departments for interview and to support the pay rate approved when the applicant is hired.

**Auditee Response:**

PSS concurs with this finding. The HR Director and staff will ensure completeness of the assessment and evaluation for all applicants before the eligibility list is established.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-9, After-the-fact Ratification**

**Criteria:**

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

**Condition:**

For 1 or 4% of 25 purchase orders selected for testing under the Consolidated grant, the products and services were provided before the purchase orders were released for the following.

<u>Date</u>	<u>Check No.</u>	<u>Particulars</u>	<u>PO. Number</u>	<u>PO Date</u>	<u>Vendor Invoice</u>		
					<u>No.</u>	<u>Date</u>	<u>Amount</u>
03/17/10	115431	Labor and on-site diagnostics repair, networking, software training and general maintainance.	67417	03/10/10	55987	11/06/09	\$ 1,425
					55839	10/22/09	720
					56638	01/08/10	480
					56655	01/11/10	529
					55208	08/25/09	600
							<u>\$ 3,754</u>

There was no after-the-fact documentation ratifying these procurements.

**Cause:**

The above expenditures were for an approved Title V project for a private school, although the private school submitted the documents after-the-fact, PSS paid for them.

**Effect:**

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

**Recommendation:**

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

**Auditee Response:**

PSS will adhere to its small purchase procedure and will have the internal auditor conduct reviews to detect any circumvention of the established small purchase 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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-10, Travel Authorization**

**Criteria:**

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

**Condition:**

For 20 or 33.3% of the 60 travel authorizations (TA) selected for testing were for travels outside the CNMI and the following was noted:

- a. For 3 or 15% of the 20 TAs for travel outside the CNMI, the following TAs were not provided for examination:

Traveller No.	TA No.	Amount
10007	70155	\$ 1,336
11102	68872	1,101
12768	70088	1,057
		<u>\$ 3,494</u>

- b. For 4 or 20% of the 20 TAs for travel outside the CNMI, the following TAs were not submitted within the prescribed period:

Traveller No.	TA No.	Amount	Date Submitted	Travel Start Date	No of Days Late
8442	70052	\$ 1,210	06/30/10	07/11/10	2
12683	69833	817	06/22/10	06/23/10	8
2858	65059	793	11/16/09	11/26/09	1
7807	68675	595	04/30/10	05/07/10	4
		<u>\$ 3,415</u>			

**Cause:**

PSS does not have internal control monitoring procedures in place to ensure that all TAs are submitted in accordance with its existing travel policies. Furthermore, the accountant in-charge of travel retired in FY 2010, leaving only one accountant to handle all travel advances and liquidations.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-10, Travel Authorization, Continued**

**Effect:**

Failure to adhere to the travel policies may result in unauthorized travel, disallowed costs, significant bad debts and non-compliance with the applicable local laws and federal regulations.

**Recommendation:**

PSS should implement internal control monitoring procedures to ensure timely submission of all travel authorizations.

With the large volume of travel authorizations processed, PSS should explore the option of electronic filing and approval of travel authorizations. This option may also reduce the lead time it takes for the TAs to get from the requester to the Travel Section of PSS Accounting and reduce the paperwork for filing at the Travel Section.

**Auditee Response:**

The PSS concurs with this finding; and effective April of 2011 will use electronic filing of travel authorizations.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-11, Travel Authorization Supporting Documents**

**Criteria:**

Pursuant to PSS Regulation 3420, section C (7), the following information must be attached to the TA prior to being submitted to the Chairperson of the Board and to the Commissioner as appropriate:

- a. Justification memorandum for the travel
- b. Document of invitation and/or agenda
- c. Specific purpose
- d. Itinerary (schedule or departure, arrival and destinations)
- e. Estimated Cost

**Condition:**

- a. 3 or 5% of the 60 TAs selected for testing were not provided for examination (See Finding No. 10-10).
- b. 4 or 7% of the 57 TAs tested did not comply with the requirements of PSS Regulation 3420, section C (7). Deficiencies noted are as follows:

Traveller No.	TA No.	Amount	Remarks
2858	65059	\$ 793	Invitation not on file
5381	70359	1,138	Traveler's name not included in the justification memo
9668	64956	798	Invitation not on file
11133	68956	54	Justification memo not on file
		<u>\$ 2,783</u>	

**Cause:**

PSS did not adhere to its established internal control policies and procedures for travel authorization.

**Effect:**

Failure to adhere to the travel policies could result in high outstanding advances balance and potential bad debts.

**Recommendation:**

PSS should strictly enforce its travel policies and procedures and establish internal control monitoring procedures to ensure that all travels made using PSS local and federal funds are both necessary and reasonable.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-11, Travel Authorization Supporting Documents, Continued**

**Auditee Response:**

The PSS concurs with this finding and effective April of 2011, will not approve any travel request that lacks supporting documentation. A checklist will be used, that includes (justification memo, invitation and/or agenda, specific purpose, itinerary, and estimated cost) which must be signed by the requestor and the approver.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-12, Travel Advances Issued to Travelers with Unliquidated TA**

**Criteria:**

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

**Condition:**

- a. 20 or 35% of the 57 TAs tested were issued to travelers with unliquidated travel advances.

Traveller No.	TA No.	Amount	Funding
9680	67966	\$ 1,998	103IAPOPD3
9649	69731	3,591	103PUBOTHS
9649	70278	1,089	101SFSF100
12683	69833	817	109APCOPTA
12685	67376	148	TF10256AO1
12683	70506	1,225	103PUBOTES
9668	66876	334	650110.4226
9668	69566	652	103PUBORHS
9668	70263	1,669	101SFSF100
2208	69553	1,235	109AYPOGES
10835	68665	247	Local
10007	69864	321	TF10256AO1
7807	70032	968	1085LEOSPE
7807	68675	595	103PUBOTHS
7807	69853	409	TF10256AO1
2746	67078	3,158	Local
2746	66371	429	Local
4719	67693	1,636	095ARR9SPB
2926	70419	1,113	101SFSF100
11345	69636	334	Local
		<u>\$ 21,968</u>	

**Cause:**

PSS did not adhere to its established internal control policies and procedures for travel authorization.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-12, Travel Advances Issued to Travelers with Unliquidated TA, Continued**

**Effect:**

Failure to adhere to the travel policies could result in high outstanding advances balance and potential bad debts.

**Recommendation:**

PSS should strictly enforce its travel policies and procedures and establish internal control monitoring procedures to ensure that travelers with outstanding travel advances liquidate their prior advances or obtain a documentation of the PSS Commissioner's approval for the subsequent travel advances.

**Auditee Response:**

The PSS concurs and effective April of 2011 will not approve any travel advance for travelers with outstanding travel advances and will request the internal auditor to conduct quarterly monitoring to check on this internal control procedure.

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-13, Travel Liquidation**

**Criteria:**

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

**Condition:**

- a. For 8 or 14% of the 57 TAs tested, liquidations did not occur within the prescribed period as follows:

<u>Traveller No.</u>	<u>TA No.</u>	<u>Amount</u>	<u>End of Travel Date</u>	<u>Liquidation Date</u>	<u>No of Days Late</u>	<u>Funding</u>
2871	65339	\$ 98	12/09/09	02/23/10	40	1072BA0HDS
2926	70121	717	07/26/10	08/20/10	5	102LEAOMMT
4719	67693	1,636	04/16/10	05/14/10	6	095ARR9SPB
9668	69566	652	06/11/10	07/20/10	13	103PUBORHS
10007	67842	2,056	04/19/10	05/10/10	1	103IAPOPD3
10007	69864	321	07/02/10	07/29/10	5	TF10256A01
12685	67376	148	03/13/10	12/18/10	185	TF10256A01
13084	70412	1,188	08/14/10	10/14/10	29	101SFSF100
		<u>\$ 6,816</u>				

- b. For 13 or 23% of the 57 TAs tested, the following TAs were not liquidated as of September 30, 2010:

<u>Traveller No.</u>	<u>TA No.</u>	<u>Amount</u>	<u>End of Travel Date</u>	<u>Funding</u>
5236	70425	\$ 1,113	08/13/10	101SFSF100
7807	70032	968	07/17/10	1085LEOSPE
8442	70052	1,210	07/17/10	1088IFOSPE
9680	67966	1,998	05/02/10	103IAPOPD3
10835	68665	247	05/09/10	Local
11133	70075	1,336	07/27/10	102LEAOMMT
11345	67923	267	04/09/10	Local
11345	69636	334	06/15/10	Local
12555	70265	1,669	08/13/10	101SFSF100
12683	69833	817	06/29/10	109APCOPTA
12683	70506	1,225	08/13/10	103PUBOTES
13228	68603	1,921	07/16/10	1083SEOSPE
13245	70327	742	08/07/10	095ARR9HDQ
		<u>\$ 13,847</u>		

**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-13, Travel Liquidation, Continued**

**Condition, Continued:**

- c. For 7 or 12% of the 57 TAs tested, the liquidation were not on file as follows:

Traveller No.	TA No.	Amount	End of Travel Date	Funding
2746	67078	\$ 3,158	03/26/10	Local
2746	66371	429	03/03/10	Local
2858	65059	793	11/29/09	093IAP9PDP
5381	67747	54	03/25/10	Local
9302	65602	123	12/19/09	TF10256AOI
9668	70263	1,669	08/13/10	101SFSF100
13245	64612	544	11/07/09	1073TROHDS
		<u>\$ 6,770</u>		

- d. For 10 or 24% of the 27 liquidations tested, supporting documents were not on file as follows:

Traveller No.	TA No.	Amount	Remarks	Funding
4719	67693	\$ 1,636	trip report not in file	095ARR9SPB
5381	70359	1,138	only 1 boarding pass attached	103PUBORJH
5381	67691	2,066	trip report not in file	095AKK9SPB
9649	69731	3,591	trip report not in file	103PUBOTHS
9668	64956	798	liquidation not on file	093IAP9PDP
10007	69864	321	incomplete boarding pass	TF10256AO1
10007	67842	2,056	trip report not in file	103IAPOPD3
11133	67455	148	boarding pass not on file	101SFSF100
12685	67376	148	no attachment on file	TF10256AO1
12768	67681	1,092	trip report not in file	TF10256AO1
		<u>\$ 12,994</u>		

- e. For TA No. 64622, the actual liquidation should be \$204.92; however, the expenditure posted to the general ledger was \$342.42.

- f. For TA No. 66876, the per diem was computed from 03/05/10 to 03/07/10; however, the attached boarding pass was only until 03/06/10.



**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, 2010

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding No. 10-13, Travel Liquidation, Continued**

**Cause:**

PSS has a weak internal control over travel liquidation as it allows management override on travel of personnel with unliquidated advances.

**Effect:**

PSS's established monitoring control cannot function effectively due to management override on its specific internal control. This could result to high outstanding advances balance, overpayment to traveler and potential bad debts.

**Recommendation:**

PSS should strengthen its travel liquidation policies and procedures by not allowing management override and the implementation of travel reimbursement method. A report should also be prepared on current outstanding advances and provide report to the PSS Commissioner for corrective action.

**Auditee Response:**

The PSS concurs with the findings and will request the internal auditor to prepare a report for FY10 and the first five months of FY11 on travel liquidations and make recommendations to the Commissioner of Education for corrective action.

**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, 2010

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

Allowed Cost and Cost Principles – Special Education and Consolidated Grants

Finding No. 10-14

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027 and 84.922		\$ 393,300

Criteria:

Pursuant to OMB Circular A-21, all accounting entries should be properly documented and approved.

Furthermore, pursuant to 34 CFR PART 74 §74.53, financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report.

Condition: (Refer to Finding 10-06)

The supporting documents for Journal entry No. 14384 were not on file. This entry is to transfer salaries and wages from the general fund to the following federal programs:

- \$343,300 transferred from business unit 101055 (Marianas High School Local Appropriation) to business unit 1041AP0CSR (IAP/T5 - Class Size Reduction).

- \$50,000 transferred from business unit 101133 (Special Education Local Appropriation) to business unit 0983SE9SPE (SPED Handicapped Children LEA).

Cause:

PSS does not maintain an up to date document filing system and does not have a formal document storage and retrieval system in place.

**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, 2010

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

Allowed Cost and Cost Principles – Special Education and Consolidated Grants

Finding No. 10-14, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027 and 84.922		\$ -

Effect:

PSS is not in compliance with OMB Circular A-21 and the retention and access requirements for records pursuant to 34 CFR PART 74 or the Administrative Grants and Agreements with Institution of Higher Education, Hospitals and other Non-Profit Organization. As a result, questioned costs of \$393,300 exists.

Recommendation:

PSS should ensure that all journal entries are substantiated, properly documented and approved to comply with OMB Circular A-21. Furthermore, PSS should develop a formal document storage and retrieval system to ensure that document are retained in accordance with 34 CFR PART 74.

Auditee Response:

PSS concurs with the finding on documentation but does not concur with the questioned cost. The documentation for these adjustments was prepared when the reclassifications were approved. PSS Fiscal and Budget Division will search for these documentations.

To prevent similar condition for recurring, effective March 2011, PSS Fiscal and Budget Division is implementing a scan and file system, wherein all accounting documents and supporting documents will be electronically filed and stored in multiple locations.

**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, 2010

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

Allowed Cost and Cost Principles – Consolidated Grants

Finding No. 10-15

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922		\$ -

Criteria:

Purchase order should be approved before actual services or products are procured.

Condition:

For 1 or 4% of 25 purchase order, selected for testing under the Consolidated grant, the products and services were provided before the following purchase orders were released.

<u>Date</u>	<u>Check No.</u>	<u>Particulars</u>	<u>PO. Number</u>	<u>PO Date</u>	<u>Vendor Invoice</u>		<u>Amount</u>
					<u>No.</u>	<u>Date</u>	
03/17/10	115431	Labor and on-site	67417	03/10/10	55987	11/06/09	\$ 1,425
		diagnostics repair,			5839	10/22/09	720
		networking,			56638	01/08/10	480
		software training			56655	01/11/10	529
		and general			55208	08/25/09	600
							<u>\$ 3,754</u>

There was no after-the-fact documentation ratifying these procurements.

Cause:

PSS did not adhere to its established procurement policies and procedures.

Effect:

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

Recommendation:

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

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

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2010

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

Allowed Cost and Cost Principles – Consolidated Grants

Finding No. 10-15, continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.922	<p><u>Auditee Response:</u></p> <p>PSS will adhere to its small purchase procedure and will have the internal auditor conduct reviews to detect any circumvention of the established small purchase policies and procedures.</p>	<p>\$ -</p>
Total Questioned Costs		<p style="text-align: right;"><u>                  -</u></p> <p style="text-align: right;"><u>\$ 393,300</u></p>

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

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2010

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**2009 Audit Findings**

**Finding No. 09-01, Travel Authorization**

The following were noted:

- a. Nineteen (19) or 76% of twenty-five (25) travelers tested submitted travel authorizations (TA) after the prescribed period, or
- b. Ninety-four (94) or 23% of the 415 TAs submitted by the selected travelers were after the prescribed period.

**Corrective Action:**

Public School System is in the process of upgrading the JDE Systems to include the electronic signature, filing and approval of all documents which will expedite processing and approval of Travel Authorizations. This upgrade is expected to be finalized between September through December 2009.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-10. Also the corrective action plan was not implemented.

**Finding No. 09-02, Travel Authorization Supporting Documents**

**Condition:**

Eight (8) or 32% of twenty-five (25) travelers tested did not comply with the requirements of PSS Regulation 3420, section C (7).

**Corrective Action:**

Public School System is in the process of upgrading the JDE Systems to include the electronic signature, filing and approval of all documents which will expedite processing and approval of Travel Authorizations. This upgrade is expected to be finalized between September through December 2009.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-11. Also the corrective action plan was not implemented.

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

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2010

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**2009 Audit Findings, Continued**

**Finding No. 09-03, Travel Liquidation**

**Condition:**

- a. Twelve (12) or 48% of twenty five (25), travelers tested, did not submit the travel voucher/liquidation within the prescribed period.
- b. Two (2) or 8% of twenty five (25), travelers tested, received travel advances for travel that were subsequently cancelled. The travelers did not return the entire travel advance received; instead they signed allotment authorization for fixed semi-monthly installments.

**Auditee Response and Corrective Action Plan:**

PSS should designate an employee to monitor travel advances to ensure that such are liquidated in accordance with PSS Regulation 3420, section G (1). A report should be prepared and provided to the Commissioner for corrective action.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-12.

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

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2010

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**2009 Audit Findings, Continued**

**Finding No. 09-04, Use of Preauthorized Trip Report**

**Condition:**

Trip report was not on file for the following travel authorizations:

<u>Traveller No./</u> <u>Employee No.</u>	<u>Travel</u> <u>Authorization</u>	<u>Destination</u>
2469	58037	Washington DC
	58322	Washington DC
2606	60772	Honolulu HI
	60961	Guam
2858	62447	Guam

Furthermore, most of the trip reports examined did not provide a detailed description of what was obtained during the trip and how these could benefit PSS.

**Auditee Response and Corrective Action Plan:**

PSS should designate an employee to monitor travel advances to ensure that such are liquidated in accordance with PSS Regulation 3420, section G (1). A report should be prepared and provided to the Commissioner for corrective action.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-13.

**Finding No. 09-05, Use of Credit Cards**

**Condition:**

Four (4) of the 25 or 16% of travelers selected for testing of travel advances, used PSS credit card on several trips were travel advances were issued to pay for accommodations and registration.

**Auditee Response and Corrective Action Plan:**

PSS will implement a credit card policies and procedure to ensure that the credit cards are used for authorized purposed only.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-05.



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

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2010

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**2009 Audit Findings, Continued**

**Finding No. 09-06, Compliance with Appropriations Budget**

**Condition:**

- a. The PSS Board of Education, adopted certain salary adjustments during its August 27, 2009 Board Meeting, as follows:
- Commissioner's salary to increase from \$70,000 per annum to \$80,000 per annum retroactively to the date of hiring, August 20, 2008.
  - Legal Counsel's salary from \$55,000 to \$70,000, effective retroactively to October 30, 2008.
  - Increase Board Secretary's salary by 20%, effective retroactively to October 30, 2008.
- b. PSS made renovations to the Office of the Board of Education and purchased controlled assets. These expenditures were funded by PSS Operations Appropriations.

**Auditee Response and Corrective Action Plan:**

PSS does not concur with the findings. They believe that the above are within the expenditure authority of the PSS Commissioner.

**Status:**

Unresolved. The CNMI Office of the Public auditor has not issued an opinion on this finding to resolve the difference between the auditor and PSS management.

**Finding No. 09-08, Medical Examination at the Start of Contract for New Employees**

51 of the 60 or 85% of the contracts selected were for new employees. Of the 51 new employee contracts tested, 27 or 53% did not have the physical examination record on-file for independent review and inspection.

**Auditee Response and Corrective Action Plan:**

PSS HR Office will monitor all new contracts and contract renewals to ensure that the required documentations are submitted.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-07.

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

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2010

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**2009 Audit Findings, Continued**

**Finding No. 09-10, Allowed Cost and Cost Principles – Special Education and Consolidated Grants**

**Condition:**

PSS provided a post trial balance adjusting journal entry to reclassify federal expenditure of \$204,176 to local funds and vice versa. The reclassification involved the transfer of personnel cost of highly qualified teacher from local funds to federal funds and a transfer of software cost from federal to local funds. The listing of the highly qualified teachers and the business units affected were not provided.

**Auditee Response and Corrective Action Plan:**

PSS Fiscal and Budget Office will ensure that all journal entries are properly supported and approved.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-06.

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

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2010

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**2008 Audit Findings**

**Finding No. 08-01, Travel**

**Conditions:**

The following were noted:

- a. Eight (8) or 18% of forty five (45) travel authorization (TA) requested were not provided for testing.
- b. Of the thirty-seven (37) TAs examined, 1 or 3% was not submitted within the prescribed period.

The justification for the late TA was that the notification of invitation from PSS Curriculum and Instruction was received late. However, when we examined the invitation it was sent out 15 days before the travel date, which provides for sufficient time to complete the TA within the 5 working days allowance.

**Corrective Action:**

Public School System is in the process of upgrading the JDE Systems to include the electronic signature, filing and approval of all documents which will expedite processing and approval of Travel Authorizations. This upgrade is expected to be finalized between September through December 2009.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-10. Also the corrective action plan was not implemented.

**Finding No. 08-02, Travel Liquidation**

**Conditions:**

For six (6) or 16% of the thirty-seven (37) travel authorizations examined, travel advances were issued to travelers with unliquidated travel advances.

**Auditee Response and Corrective Action Plan:**

For fiscal year 2009, the Fiscal and Budget office developed a form whereby the Commissioner of Education can authorize and approve travel advances for employees with outstanding travel advances when the situation warrants. This form will document the extenuating circumstances for the unliquidated travel advances.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-11.

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

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2010

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**2008 Audit Findings, Continued**

**Finding No. 08-03, Travel Liquidation**

**Condition:**

The following were noted:

- a. For thirteen (13) or 28% of forty five (45), travel authorizations tested, the travel advance liquidations are either not yet liquidated or were not on file.
- b. Six (6) out of the thirty-two (32) travel advance liquidations examined, submitted their travel voucher after the 15 working days allowance.

**Auditee Response and Corrective Action Plan:**

PSS should designate an employee to monitor travel advances to ensure that such are liquidated in accordance with PSS Regulation 3420, section G (1). A report should be prepared and provided to the Commissioner for corrective action.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-13.

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

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2010

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**2007 Audit Findings**

**Finding No. 07-01, Travel Advances**

**Condition:**

As of September 30, 2007, outstanding travel advances are as follows:

	Balance as of September 30, 2007	No. of Traveler
Old Accounts	\$ 290,216	439
Employees	\$ 54,723	108
Non-Employees	36,497	120
Students	4,666	42
	95,886	270
Total	\$ 386,102	709

- The \$290,216 old accounts were for travels before PSS implemented its updated travel policies.

	Balance at 9/30/07	Current		Over 30 days	
		Amount	No. of Traveler	Amount	No. of Traveler
Employees	\$ 54,723	\$ 21,248	59	\$ 33,475	49
Non-Employees	36,497	2,248	14	34,249	106
Students	4,666	1,345	7	3,321	35
	\$ 95,886	\$ 24,841	80	\$ 71,045	190

- Of the \$95,886 (270 travelers) only \$24,841 (80 travelers or 30% of total travelers) are current.
- 190 travelers or 70% of total travelers with aggregate travel advance balance of \$71,045 or 74% have unliquidated travel advances.

**Corrective Action:**

PSS management and the Board are reviewing its current travel policy. Office of Fiscal and Budget, Travel Section is regularly preparing statement of accounts for travelers with outstanding travel advances and are requiring signed allotment authorization. Non-PSS employees, the Coordinators are held liable for unliquidated travel advances.

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

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2010

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**2007 Audit Finding, Continued**

**Finding No. 07-01, Continued**

**Status:**

Unresolved. Similar current year findings were cited as Finding Nos. 10-10 and 10-12, respectively.

**2006 Audit Findings**

**Finding No. 06-02 Travel Authorization**

**Condition:**

- a. Two (2) or 10% of the twenty (20) travel authorization tested were not submitted within the prescribed period.
- b. For three (3) or 15% of the twenty (20) travel authorization tested, documents such as justification memorandum for the travel; documents of invitation and or agenda; specific purpose; itinerary; and estimated cost were not attached to Travel Authorization.

**Corrective Action:**

The Commissioner of Education issued a memorandum dated December 4, 2006 regarding travel policies and procedures and referred to previously issued memorandum to all principals, program manager, supervisor and staff, dated October 20, 2004, regarding processing of travel authorization.

Supporting documents for the 3 travel authorization noted above were obtained.

**Status:**

Unresolved. Similar current year findings were cited as Finding Nos. 10-10 and 10-12, respectively.

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

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2010

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**2006 Audit Finding, Continued**

**Finding No. 06-03, Unliquidated Advances**

**Condition:**

Seven or 35% of the twenty (20) travel authorizations, travel advances were issued to travelers with unliquidated travel advances.

**Corrective Action:**

PSS through the Fiscal and Budget office, travel section are actively pursuing collections of unliquidated travel advances.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-12.

**Finding No. 06-04, Travel Liquidation**

**Condition:**

- a. For six (6) or 30% of twenty (20), travel authorizations tested, the travel advance liquidations are either not yet liquidated or were not on file.
- b. Four (4) out of the fifteen (15) who submitted do not have complete supporting documents.

**Corrective Action:**

PSS through the Fiscal and Budget office, travel section are actively pursuing collections of unliquidated travel advances.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-13.

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

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2010

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**2005 Audit Findings**

**Finding No. 05-3, Travel Authorization**

**Condition:**

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

**Corrective Action:**

The Commissioner of Education issued a memorandum dated December 4, 2006 regarding travel policies and procedures and referred to previously issued memorandum to all principals, program manager, supervisor and staff, dated October 20, 2004, regarding processing of travel authorization.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-10.

**Finding No. 05-4, Unliquidated Advances**

**Condition:**

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

**Corrective Action:**

PSS Fiscal and Budget Office is implementing effective FY 2007 stringent collection efforts on all outstanding travel advances and does not issue new travel advance to any traveler with outstanding travel unless an allotment authorization is signed or an approval is obtained from the Commissioner or the Chairman of the Board of Education, as applicable.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-12.



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

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2010

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**2005 Audit Findings, Continued**

**Finding No. 05-5, Travel Liquidations**

**Condition:**

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

**Corrective Action:**

The Commissioner of Education issued a memorandum dated December 4, 2006 regarding travel policies and procedures and referred to previously issued memorandum to all principals, program manager, supervisor and staff, dated October 20, 2004, regarding processing of travel authorization.

**Status:**

Unresolved. A similar current year finding was cited as Finding No. 10-10.

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

Summary Schedule of Unresolved Prior Year Audit Findings  
Year Ended September 30, 2010

**SECTION IV – SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**2004 Audit Findings**

**Finding No. 04-6, Travel**

**Condition:**

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

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

**Corrective Action:**

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

**Status:**

Unresolved. Similar current year findings were cited as Finding Nos. 10-10 through 10-13.

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

(A Component Unit of the CNMI Government)

Summary Schedule of Unresolved Questioned Costs  
Year Ended September 30, 2010

**V. SUMMARY OF UNRESOLVED QUESTIONED COSTS**

Unresolved questioned costs as of September 30, 2010 amount to \$687,017.

Fiscal year 2009	\$293,717
Fiscal year 2010	<u>393,300</u>
Total	<u>\$687,017</u>

March 28, 2011

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

Dear Mr. Magliari:

We are transmitting herewith our responses to the audit findings and recommendations per your audit report for FY 2010.

We hope that the attached plan of corrective action responses is sufficient to address the audit findings and recommendations.

Sincerely,

Richard Waldo  
Director of Finance

cc: BOE  
COE  
ADCA  
file

Plan of Corrective Action:

Finding No. 10-01

PSS concurs with this finding and will reconcile all bank accounts in a timely manner. The General Fund and the Payroll funds will be reconciled monthly, while the other 7 accounts will be reconciled quarterly. Furthermore, PSS will hire a General Ledger Accountant by May 2011.

Finding No. 10-02

PSS concurs with this finding and will hire a general ledger accountant by May 2011 to perform the key control procedures that includes the preparation of reconciliations, review of general ledger balances and preparation of adjusting journal entries.

Finding No. 10-03

PSS concurs with this finding about the transfer of funds that they transferred cover from PL 16-10 to fund the shortfall from the Appropriation received. PSS will abide with the requirements of the Public Laws and is restoring the borrowed funds so that the restricted funds may be used for its intended purposes.

Finding No. 10-04

PSS concurs with this finding. On December 28, 2010, PSS Procurement Officer has aligned the change order regulation for PSS with the CNMI Central Government procedure allowing change order up to 25% of the original contract price. PSS will comply with the contract change order procedures as delineated by the PSS Procurement Officer.

Finding No. 10-05

PSS concurs with this finding. In February 2011, PSS adopted a new policies and procedures regarding the use of the credit card.

Finding No. 10-06

PSS concurs with this finding. Effective March 2011, PSS Fiscal and Budget is implementing a scan and file system, wherein all accounting documents and supporting documents will be electronically filed and stored in multiple locations.

Finding No. 10-07

PSS concurs with this finding. The Public School System has instituted, on October 2010, a procedure to safeguard and ensure that all required documents are on file, i.e. police, health certificate, copy of degree and etc. A checklist of all required documents is appended to the contract to ascertain receipt of the required documents. In October and November 2010, the PSS HR Director and Commissioner of Education issued separate memorandum to all programs and school principals emphasizing the need to for all employees to have all required documents submitted before employment contracts, whether new or renewal, is approved. New hires are not allowed to report to work without contracts; current employees will be given a 90-day notice of contract non-renewal for failing to submit the required documents.

Finding No. 10-08

PSS concurs with this finding. The HR Director and staff will ensure completeness of the assessment and evaluation for all applicants before the eligibility list is established.

Finding No. 10-09

PSS concurs with this finding. PSS will adhere to its small purchase procedure and will have the internal auditor conduct reviews to detect any circumvention of the established small purchase procedures.

Finding No. 10-10

The PSS concurs with this finding and effective April of 2011, will use electronic filing of travel authorizations.

Finding No. 10-11

The PSS concurs with this finding and effective April of 2011, will not approve any travel request that lacks supporting documentation. A checklist will be used, that includes (justification memo, invitation and/or agenda, specific purpose, itinerary, and estimated cost) which must be signed by the requestor and the approver.

Plan of Corrective Action:

Finding No. 10-12

The PSS concurs with this finding and effective April of 2011 will not approve any travel advance for travelers with outstanding travel advances and will request the internal auditor to conduct quarterly monitoring to check on this internal control procedure.

Finding No. 10-13

The PSS concurs with this finding and will request the internal auditor to prepare a report for FY10 and the first five months of FY11 on travel liquidations and make recommendations to the Commissioner of Education for corrective action.

Finding No. 10-14

PSS concurs with the finding on documentation but does not concur with the questioned cost. The documentation for these adjustments was prepared when the reclassifications were approved. PSS Fiscal and Budget Division will search for these documentations.

To prevent similar condition for recurring, effective March 2011, PSS Fiscal and Budget is implementing a scan and file system, wherein all accounting documents and supporting documents will be electronically filed and stored in multiple locations.

Finding No. 10-15

The PSS concurs with this finding and will adhere to its small purchase procedure and will have the internal auditor conduct reviews to detect any circumvention of the established small purchase policies and procedures.

**SUPPLEMENTARY INFORMATION**

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**STATISTICAL SECTION**

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**Year Ended September 30, 2010**

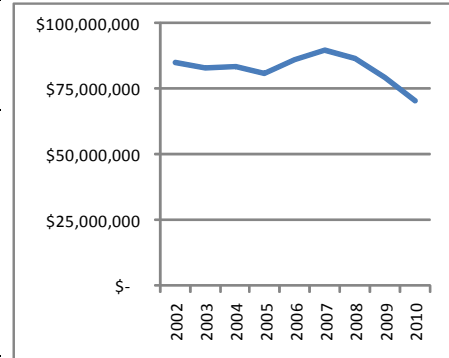


**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS  
PUBLIC SCHOOL SYSTEM**  
(A Component Unit of the CNMI Government)

Statistical Section  
Fiscal Years Ending Spetember 30, 2002 through 2010

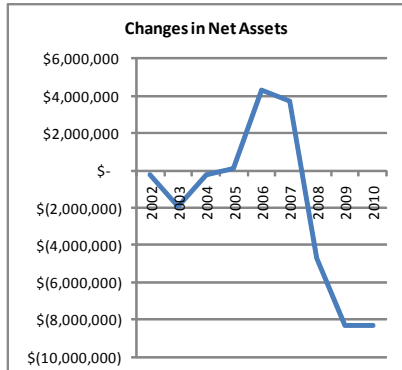
**I. NET ASSETS**

	Invested in capital assets	Invested in improvement projects in progress	Unrestricted	Net Assets
2002	\$ 74,998,775	\$ 8,511,378	\$ 1,606,555	\$ 85,116,708
2003	\$ 79,687,750	\$ 1,888,369	\$ 1,596,239	\$ 83,172,358
2004	\$ 80,139,357	\$ 1,907,967	\$ 1,455,306	\$ 83,502,630
2005	\$ 79,066,700	\$ 3,156,692	\$ (1,167,231)	\$ 81,056,161
2006	\$ 82,813,078	\$ 3,540,460	\$ (453,821)	\$ 85,899,717
2007	\$ 84,097,616	\$ 4,641,329	\$ 906,235	\$ 89,645,180
2008	\$ 86,483,662	\$ 2,979,773	\$ (3,025,779)	\$ 86,437,656
2009	\$ 85,403,930	\$ 2,999,426	\$ (9,149,389)	\$ 79,253,967
2010	\$ 84,018,817	\$ 3,318,462	\$ (16,794,136)	\$ 70,543,143



**II. CHANGES IN NET ASSETS**

	2010	2009	2008	2007
<b>Program revenues</b>				
Grants and contributions	\$ 41,688,947	\$ 28,706,673	\$ 27,688,584	\$ 28,511,455
Charges for service	2,077,273	1,368,328	1,335,432	1,588,862
<b>Total program revenues</b>	<b>43,766,220</b>	<b>30,075,001</b>	<b>29,024,016</b>	<b>30,100,317</b>
<b>Expenses</b>	<b>(83,569,521)</b>	<b>(72,999,334)</b>	<b>(70,260,117)</b>	<b>(67,898,067)</b>
<b>General revenues</b>				
Unrestricted CNMI appropriations	31,219,656	34,601,764	35,847,444	36,721,414
Capital improvement, CNMI	302,108	43,740	674,892	4,817,339
Miscellaneous, unrestricted	-	-	-	4,460
<b>Total general revenues</b>	<b>31,521,764</b>	<b>34,645,504</b>	<b>36,522,336</b>	<b>41,543,213</b>
<b>Changes in net assets</b>	<b>(8,281,537)</b>	<b>(8,278,829)</b>	<b>(4,713,765)</b>	<b>3,745,463</b>
Current year restatement	(429,287)	1,095,140	1,506,241	-
<b>Net assets - beginning</b>	<b>79,253,967</b>	<b>86,437,656</b>	<b>89,645,180</b>	<b>85,899,717</b>
<b>Net assets - ending</b>	<b>\$ 70,543,143</b>	<b>\$ 79,253,967</b>	<b>\$ 86,437,656</b>	<b>\$ 89,645,180</b>



	2006	2005	2004	2003	2002
<b>Program revenues</b>					
Grants and contributions	\$ 28,340,642	\$ 34,635,642	\$ 23,539,319	\$ 23,492,622	\$ 16,848,756
Charges for service	563,917	140,100	142,745	116,152	60,685
<b>Total program revenues</b>	<b>28,904,559</b>	<b>34,775,742</b>	<b>23,682,064</b>	<b>23,608,774</b>	<b>16,909,441</b>
<b>Expenses</b>	<b>(65,523,166)</b>	<b>(73,338,189)</b>	<b>(61,261,826)</b>	<b>(63,372,920)</b>	<b>(54,920,411)</b>
<b>General revenues</b>					
Unrestricted CNMI appropriations	37,209,928	37,404,908	37,209,928	37,794,725	36,830,342
Capital improvement, CNMI	3,623,424	1,234,174	-	-	-
Miscellaneous, unrestricted	100,091	-	140,316	25,071	943,255
<b>Total general revenues</b>	<b>40,933,443</b>	<b>38,639,082</b>	<b>37,350,244</b>	<b>37,819,796</b>	<b>37,773,597</b>
<b>Changes in net assets</b>	<b>4,314,836</b>	<b>76,635</b>	<b>(229,518)</b>	<b>(1,944,350)</b>	<b>(237,373)</b>
Current year restatement	528,720	(2,523,104)	559,790	-	-
<b>Net assets - beginning</b>	<b>81,056,161</b>	<b>83,502,630</b>	<b>83,172,358</b>	<b>85,116,708</b>	<b>85,354,081</b>
<b>Net assets - ending</b>	<b>\$ 85,899,717</b>	<b>\$ 81,056,161</b>	<b>\$ 83,502,630</b>	<b>\$ 83,172,358</b>	<b>\$ 85,116,708</b>

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

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

Statistical Section  
Fiscal Years Ending Spetember 30, 2002 through 2010

**III. REVENUES BY SOURCE**

<i>in thousands</i>	2010		2009		2008		2007		2006	
Unrestricted CNMI appropriations	\$ 31,522	41.7%	\$ 34,602	53.5%	\$ 35,847	54.7%	\$ 36,721	51.3%	\$ 37,210	53.3%
Grants and contributions	41,689	55.2%	28,707	44.4%	27,689	42.2%	28,512	39.8%	28,341	40.6%
Capital improvement, CNMI	302	0.4%	44	0.0%	675	1.1%	4,817	6.7%	3,623	5.2%
Charges for service	2,077	2.7%	1,368	2.1%	1,335	2.0%	1,589	2.2%	564	0.8%
Miscellaneous, unrestricted	-	0.0%	-	0.0%	-	0.0%	4	0.0%	100	0.1%
	<b>\$ 75,590</b>	<b>100.0%</b>	<b>\$ 64,721</b>	<b>100.0%</b>	<b>\$ 65,546</b>	<b>100.0%</b>	<b>\$ 71,643</b>	<b>100.0%</b>	<b>\$ 69,838</b>	<b>100.0%</b>

<i>in thousands</i>	2005		2004		2003		2002	
Unrestricted CNMI appropriations	\$ 37,405	51.0%	\$ 37,210	61.0%	\$ 37,795	61.5%	\$ 36,830	67.4%
Grants and contributions	34,636	47.2%	23,539	38.6%	23,493	38.2%	16,849	30.8%
Capital improvement, CNMI	1,234	1.7%	-	0.0%	-	0.0%	-	0.0%
Charges for service	140	0.1%	143	0.2%	116	0.2%	61	0.1%
Miscellaneous, unrestricted	-	0.0%	140	0.2%	25	0.1%	943	1.7%
	<b>\$ 73,415</b>	<b>100.0%</b>	<b>\$ 61,032</b>	<b>100.0%</b>	<b>\$ 61,429</b>	<b>100.0%</b>	<b>\$ 54,683</b>	<b>100.0%</b>

**IV. EXPENSES BY FUNCTION**

<i>in thousands</i>	2010		2009		2008		2007		2006	
Instruction:										
Regular	\$ 29,371	35.0%	\$ 24,807	33.9%	\$ 25,124	35.7%	\$ 27,265	40.3%	\$ 28,147	43.1%
Special education	8,610	10.3%	8,374	11.5%	7,623	10.8%	7,736	11.4%	9,100	13.9%
Co-curricular	4,536	5.4%	2,086	2.9%	2,256	3.2%	1,689	2.5%	1,319	2.0%
Student services	18,530	22.1%	15,830	21.7%	14,202	20.2%	15,353	22.7%	16,183	24.8%
Support services:										
General administration	2,027	2.4%	1,558	2.1%	1,895	2.7%	2,825	4.2%	2,278	3.5%
School administration	4,660	5.6%	3,383	4.6%	4,216	6.0%	6,063	8.9%	3,948	6.0%
Other support	5,475	6.5%	3,374	4.6%	4,198	6.0%	2,592	3.8%	95	0.1%
Community	862	1.0%	1,072	1.5%	1,513	2.2%	2,448	3.6%	2,151	3.3%
Individual programs	2,950	3.5%	2,552	3.5%	1,963	2.8%	766	1.1%	1,380	2.0%
Unfunded retirement	5,260	6.3%	8,115	11.1%	6,014	8.6%	-	0.0%	-	0.0%
Depreciation - unallocated	1,502	1.9%	1,850	2.6%	1,256	1.8%	1,161	1.5%	922	1.3%
	<b>\$ 83,783</b>	<b>100.0%</b>	<b>\$ 73,001</b>	<b>100.0%</b>	<b>\$ 70,260</b>	<b>100.0%</b>	<b>\$ 67,898</b>	<b>100.0%</b>	<b>\$ 65,523</b>	<b>100.0%</b>

<i>in thousands</i>	2005		2004		2003		2002	
Instruction:								
Regular	\$ 28,694	39.2%	\$ 27,948	45.7%	\$ 28,492	45.0%	\$ 27,089	49.4%
Special education	10,203	13.9%	9,498	15.5%	8,623	13.6%	7,088	12.9%
Co-curricular	1,482	2.0%	1,071	1.7%	98	0.2%	725	1.3%
Student services	20,513	28.0%	10,414	17.1%	13,509	21.2%	8,529	15.5%
Support services:								
General administration	3,035	4.1%	2,786	4.5%	1,656	2.6%	2,105	3.8%
School administration	4,789	6.5%	4,676	7.6%	4,606	7.3%	3,980	7.2%
Other support	179	0.2%	184	0.3%	1,043	1.6%	1,520	2.8%
Community	2,633	3.6%	2,477	4.0%	2,630	4.2%	1,843	3.4%
Individual programs	780	1.1%	869	1.4%	686	1.1%	900	1.6%
Unfunded retirement	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Depreciation - unallocated	1,030	1.4%	1,339	2.2%	2,030	3.2%	1,142	2.1%
	<b>\$ 73,338</b>	<b>100.0%</b>	<b>\$ 61,262</b>	<b>100.0%</b>	<b>\$ 63,373</b>	<b>100.0%</b>	<b>\$ 54,921</b>	<b>100.0%</b>

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**  
**PUBLIC SCHOOL SYSTEM**  
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Statistical Section  
Fiscal Years Ending Spetember 30, 2002 through 2010

V. STUDENT ENROLLMENT

	09-10	08-09	07-08	06-07	05-06	04-05	03-04	02-03	01-02
Headstart	462	462	462	664	656	657	663	697	620
Early Intervention	54	61	58	-	-	-	-	-	-
Advance Development Institute	-	21	37	-	-	-	-	-	-
Elementary									
GTC	234	225	237	220	213	224	227	236	235
Tanapag	210	232	237	236	289	261	265	283	270
Garapan	829	791	838	881	835	861	848	898	969
San Vicente	659	684	766	807	765	757	765	715	653
Dandan	481	449	455	485	483	468	445	425	424
Oleia	534	512	521	476	478	481	457	443	422
WSR	714	688	685	684	655	625	596	667	608
San Antonio	313	311	333	333	329	372	363	345	366
Kagman	544	627	645	724	765	743	722	715	757
Koblerville	431	432	463	449	470	452	458	479	448
Tinian	279	279	295	320	302	310	353	380	393
Sinapalo/Rota	229	217	231	261	276	275	268	263	283
Total elementary	5,457	5,447	5,706	5,876	5,860	5,829	5,767	5,849	5,828
Secondary									
Hopwood	1,134	1,140	1,106	1,184	1,108	995	928	962	1,332
MHS	1,213	1,220	1,198	1,225	1,279	1,216	1,154	1,020	2,103
ChaCha	421	447	522	513	529	670	582	599	-
KHS	797	784	766	802	835	809	706	697	-
Tinian Jr. High	86	105							
Tinian High	208	196	320	337	352	348	323	309	297
Rota Jr. High	129	133	150	153	145	140	142	155	158
Rota High	164	169	169	189	202	194	201	180	184
Saipan Southern	836	728	805	750	752	745	778	783	-
Total secondary	4,988	4,922	5,036	5,153	5,202	5,117	4,814	4,705	4,074
Grand Total	10,961	10,913	11,299	11,693	11,718	11,603	11,244	11,251	10,522