

Financial Statements
Years Ended
June 30, 2014 and 2013

Council of Chief State School Officers



Council of Chief State School Officers

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditors' Report

Board of Directors
Council of Chief State School Officers

We have audited the accompanying financial statements of ***Council of Chief State School Officers*** (nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our 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 we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Council of Chief State School Officers*** as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2014, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2014 on our consideration of *Council of Chief State School Officers'* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the *Council of Chief State School Officers'* internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Tysons, Virginia
November 4, 2014

Council of Chief State School Officers

Statements of Financial Position

June 30,	2014	2013
Assets		
Cash and cash equivalents	\$ 13,417,377	\$ 11,383,357
Certificates of deposit	1,348,925	1,100,653
Contracts, grants and other accounts receivable	4,169,112	2,267,110
Prepaid expenses	517,936	310,664
Short-term investments	4,892,397	3,163,170
Equipment - net	1,529,478	1,815,389
Long-term investments	244,266	193,384
	<u>\$ 26,119,491</u>	<u>\$ 20,233,727</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 5,081,945	\$ 3,109,742
Advances on grants, contracts and dues	13,690,683	11,003,684
Total liabilities	<u>18,772,628</u>	<u>14,113,426</u>
Net assets		
Unrestricted	7,192,701	5,968,838
Permanently restricted	154,162	151,463
Total net assets	<u>7,346,863</u>	<u>6,120,301</u>
	<u>\$ 26,119,491</u>	<u>\$ 20,233,727</u>

The accompanying notes are an integral part of these financial statements.

Council of Chief State School Officers

Statements of Activities

Years Ended June 30,	2014	2013
Change in unrestricted net assets		
Revenues, gains and other support		
Contracts, grants and sponsorships	\$ 34,663,778	\$ 23,802,312
Membership dues	2,493,804	2,307,664
Investment income	75,953	60,316
Net realized and unrealized gains on investments	676,065	560,057
Investment income and gains from permanently restricted investments	48,183	27,630
Registration fees	801,898	869,751
Other	210,045	235,411
Total unrestricted revenues, gains and other support	38,969,726	27,863,141
Expenses		
Program services	36,051,672	24,873,921
Management and general	1,035,107	2,164,242
Fundraising	659,084	656,133
Total expenses	37,745,863	27,694,296
Change in unrestricted net assets	1,223,863	168,845
Change in permanently restricted net assets		
Investment income	7,135	9,050
Net realized and unrealized gains (losses) on investments	46,843	22,826
Obligations met - appropriated for expenditure	(3,096)	(2,651)
Less - unrestricted portion of investment income and gains	(48,183)	(27,630)
Change in permanently restricted net assets	2,699	1,595
Change in net assets	1,226,562	170,440
Net assets - beginning of year	6,120,301	5,949,861
Net assets - end of year	\$ 7,346,863	\$ 6,120,301

The accompanying notes are an integral part of these financial statements.

Council of Chief State School Officers

Statements of Cash Flows

Years Ended June 30,	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 1,226,562	\$ 170,440
Adjustments to reconcile to net cash from operating activities:		
Depreciation	327,586	330,125
Loss on disposal of equipment	-	6,178
Net realized and unrealized gains on investments	(722,908)	(582,883)
Change in:		
Contracts, grants and other accounts receivable	(1,902,002)	2,409,798
Prepaid expenses	(207,272)	164,114
Accounts payable and accrued expenses	1,972,203	(438,351)
Advances on grants, contracts and dues	2,686,999	3,683,862
Net cash from operating activities	3,381,168	5,743,283
Cash flows from investing activities		
Purchase of equipment	(41,675)	(412,602)
Proceeds from sale of investments	59,734	494,137
Purchase of investments	(1,116,935)	(343,796)
Purchase of certificates of deposit	(445,272)	(514,324)
Redemption of certificates of deposit	197,000	726,779
Net cash from investing activities	(1,347,148)	(49,806)
Net change in cash and cash equivalents	2,034,020	5,693,477
Cash and cash equivalents - beginning of year	11,383,357	5,689,880
Cash and cash equivalents - end of year	\$ 13,417,377	\$ 11,383,357

The accompanying notes are an integral part of these financial statements.

Council of Chief State School Officers

Notes to Financial Statements

June 30, 2014 and 2013

1. Organization and Nature of Activities

The *Council of Chief State School Officers* (Council) is a nationwide, not-for-profit organized in Maryland, comprised of the public officials who head the departments of elementary and secondary education in the United States, five U.S. extra-state jurisdictions, and the Department of Defense Education Activity.

The Council provides leadership, advocacy, and technical assistance services to its members to fulfill the Council's vision that all school systems will ensure high standards of performance for every student and that each child is prepared to succeed as a productive member of a democratic society.

The Council, established in 1927, represents the chief state school officers' views on federal education policy. The Council undertakes projects to help state education agencies understand, devise, and execute policy, adopt initiatives to promote educational reform efforts, and engage in collaborative exchanges to share best practices and model solutions. These endeavors result in the development of many resources, which are widely disseminated to the Council's state constituencies, other partner organizations, the education community, related federal agencies and the U.S. Congress. The Council's work is supported by membership dues, the foundation community and governmental agencies.

Members establish Council policy with leadership provided by a nine-person Board of Directors, comprised of three officers and six directors. Each director serves a three-year term, and elections for staggered terms are held at the Annual Policy Forum and Business Meeting. The Council employs a committee structure that allows chiefs to contribute their knowledge and to participate in various operational facets of the Council.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements of the Council have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. The Council reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Class of Net Assets

The financial statements report amounts separately by class of net assets as follows:

Unrestricted net assets - Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, less expenses incurred in providing services, raising contributions, performing administrative functions and those assets invested in equipment.

Temporarily restricted net assets - Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the Council is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Council pursuant to those stipulations; however, if a restriction is fulfilled in the same time period in which the contribution is received, the Council reports the support as unrestricted. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized. The Council had no temporarily restricted net assets at June 30, 2014 and 2013.

Permanently restricted net assets - Permanently restricted net assets result from contributions and earnings that are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

Cash and Cash Equivalents

The Council considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Certificates of Deposit

The certificates of deposit bear interest ranging from 1.05% to 3.00% at June 30, 2014 (1.05% to 4.75% at June 30, 2013), and the certificates of deposit have maturities ranging from 10 months to 13 years at June 30, 2014 (6 months to 9 years at June 30, 2013).

Investments

Investments are carried at fair value and realized and unrealized gains and losses are reflected in the statements of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Equipment

All acquisitions of equipment in excess of \$1,000 and all expenditures for renewals and betterments that materially prolong the useful lives of assets are capitalized. Equipment is stated at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years.

Contracts, Grants and Other Accounts Receivable

Accounts receivable represents billed balances and unbilled costs incurred on grants and contracts. All accounts receivable are stated at the amount management expects to collect for balances outstanding at year-end. Annually, management determines if an allowance for doubtful accounts is necessary based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Accounts deemed uncollectible are charged off based on individual credit evaluation and specific circumstances of the parties involved. There was no allowance for doubtful accounts at June 30, 2014 and 2013.

Revenue Recognition

Revenues from contracts and grants are recognized as costs are incurred and projected losses are provided for in their entirety at the time of determination. The agreements are subject to audit.

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Membership dues are recorded as revenue in the fiscal year to which the membership applies.

Cash receipts in excess of costs incurred are reflected as advances on contracts. Costs incurred in excess of cash received are reflected as accounts receivable on contracts and grants.

Income Taxes

The Council is a nonprofit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, the Council qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under IRC Section 509(a)(2). The Council did not have any unrelated business income for fiscal years 2014 and 2013. The Council has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2014 and 2013. Years ending on or after June 30, 2011 remain subject to examination by federal and state tax authorities.

Indirect Costs

Indirect costs on governmental grants/contracts are recorded at the lower of the maximum provisional rate established at the time of the award, or the final rate established at the end of a fiscal year. Indirect costs or management fees on foundation grants and contracts are recorded at the rate approved in the agreement. Indirect costs incurred in excess of provisional amounts approved have not been billed or reflected in the financial statements.

Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain 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 and assumptions which may have an impact on future periods.

Concentration of Credit Risk

The Council maintains its cash in various high credit quality financial institutions, which at times may exceed the federally insured limit. The Council believes it is not exposed to any significant credit risk on cash and cash equivalents and certificates of deposit.

Approximately 2% and 5% of the Council's revenue and 7% and 5% of accounts receivable were provided by U.S. Department of Education grants or contracts for fiscal years 2014 and 2013, respectively. Approximately 29% and 11% of the Council's revenue was provided by the Bill and Melinda Gates Foundation for fiscal years 2014 and 2013, respectively. The Council has not experienced a loss as a result of the concentrations.

The Council invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term.

Subsequent Events

In preparing these financial statements, the Council has evaluated events and transactions for potential recognition or disclosure through November 4, 2014, the date the financial statements were available to be issued.

3. Equipment

Equipment consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Office equipment	\$ 2,950,197	\$ 2,908,522
Less - accumulated depreciation	<u>(1,420,719)</u>	<u>(1,093,133)</u>
	<u>\$ 1,529,478</u>	<u>\$ 1,815,389</u>

4. Investments

The Council carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Aggregate market values are summarized as follows at June 30:

	<u>2014</u>	<u>2013</u>
Short-term investments:		
Common stocks	\$ 3,863,007	\$ 3,004,117
Mutual fund	<u>1,029,390</u>	<u>159,053</u>
	<u>\$ 4,892,397</u>	<u>\$ 3,163,170</u>
Long-term investments:		
Common stocks	\$ 184,277	\$ 92,926
Corporate bonds	56,254	88,851
Money market fund	<u>3,735</u>	<u>11,607</u>
	<u>\$ 244,266</u>	<u>\$ 193,384</u>

Investment income is summarized as follows at June 30:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 75,953	\$ 60,316
Net realized and unrealized gains	<u>676,065</u>	<u>560,057</u>
	<u>\$ 752,018</u>	<u>\$ 620,373</u>

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 7,135	\$ 9,050
Net realized and unrealized gains (losses)	<u>46,843</u>	<u>22,826</u>
Total permanently restricted investment income	<u>\$ 53,978</u>	<u>\$ 31,876</u>

5. Fair Value Measurement

Financial Accounting Standards Board Statement (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Council has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014.

Level 1 assets include mutual funds and money market funds which are valued at the net asset value (NAV) of shares held at year-end and equity securities which are valued at the closing price reported in the active market in which individual securities are traded. Level 2 assets include a corporate bond for which quoted prices are not available in active markets for identical instruments. The Council utilizes a third-party pricing service to determine the fair value of the bond. Because quoted prices in active markets for identical assets are not available, this price is determined using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Council believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The tables below summarize investments, by level, for items measured at fair value on a recurring basis as of June 30, 2014 and 2013:

Assets at Fair Value as of June 30, 2014				
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 4,047,284	\$ -	\$ -	\$ 4,047,284
Mutual funds – large blend	1,029,390	-	-	1,029,390
Corporate bonds	-	56,254	-	56,254
Money market fund	3,735	-	-	3,735
Total investments	\$ 5,080,409	\$ 56,254	\$ -	\$ 5,136,663

Assets at Fair Value as of June 30, 2013				
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 3,097,043	\$ -	\$ -	\$ 3,097,043
Mutual funds – large blend	159,053	-	-	159,053
Corporate bonds	-	88,851	-	88,851
Money market fund	11,607	-	-	11,607
Total investments	\$ 3,267,703	\$ 88,851	\$ -	\$ 3,356,554

6. Permanently Restricted Net Assets

Permanently restricted net assets are as follows at June 30:

	2014	2013
NTOY Endowment	\$ 154,162	\$ 151,463

The endowment requires 5% of investment income to be permanently reinvested. The remaining income is available for unrestricted use.

7. Retirement Plan

The Council has a 401(k) safe harbor plan with a profit-sharing provision covering substantially all employees. The Council's safe harbor contribution is 3% of an employee's total compensation to the plan. The Council also contributes 7% of an employee's total compensation as a profit sharing contribution for a total contribution of 10%. The Council's policy is to fund retirement costs currently. The Council's expense for the fiscal years 2014 and 2013 was \$649,665 and \$646,446, respectively.

8. Commitments

The Council has four noncancelable leases for copiers that expire by February 2017.

The operating lease for office space terminates on December 31, 2021. The operating lease payments are subject to an annual 2% increase during the lease term. Escalation in operating costs will be based on the Council's proportionate share of any increase in operating costs. Future minimum lease payments under the leases for years ending June 30 are:

	<u>Office Space</u>	<u>Equipment</u>
2015	\$ 1,066,435	\$ 48,372
2016	1,087,769	48,372
2017	1,109,551	44,341
2018	1,131,782	-
2019	1,154,463	-
Thereafter	2,979,350	-
	<u>\$ 8,529,350</u>	<u>\$ 141,085</u>

9. Fiscal Agent Agreements

On March 24, 2010, the Council continued an agreement with the Interstate Migrant Education Council (IMEC) to provide fiscal services for IMEC. The term of the agreement is for five years commencing on January 1, 2012. IMEC has agreed to pay the Council a fiscal agent fee of 5% on all IMEC expenditures. For the fiscal years 2014 and 2013, IMEC paid the Council \$14,491 and \$9,282, respectively, under this agreement. As of June 30, 2014 and 2013, amount due to the Council from IMEC totaled \$240,578 and \$155,329, respectively.

On November 14, 2011, the Council continued an agreement with the Partnership for 21st Century Skills (P21) to provide fiscal services for P21. The term of the agreement is from December 2, 2010 through November 30, 2013. P21 has agreed to pay the Council a fiscal agent fee of 15% of all P21 expenditures. For the fiscal years 2014 and 2013, P21 paid the Council \$101,039 and \$124,178, respectively, under this agreement. As of June 30, 2014 and 2013, amount due to the Council from P21 totaled \$560,397 and \$284,937, respectively.

On April 1, 2014, the Council entered into a new agreement with P21 where P21 will only rent office space from the Council. The term of this agreement is from April 1, 2014 to December 31, 2015.

10. Functional Expenses

Element of Cost	Year Ended June 30, 2014			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 4,886,256	\$ 1,323,842	\$ 354,572	\$ 6,564,670
Fringe benefits	1,323,699	359,800	96,089	1,779,588
Printing and duplicating	91,052	63,761	661	155,474
Office supplies, service dues, publications, software, etc.	253,533	291,307	1,939	546,779
Travel, conferences and meetings	7,967,252	197,424	155,180	8,319,856
Communications	132,019	130,859	5,940	268,818
Office rent	339,315	722,570	8,203	1,070,088
Consultants, contracted services, and grants	17,991,647	558,310	36,500	18,586,457
Auditing	-	60,424	-	60,424
Insurance	-	66,123	-	66,123
Depreciation	-	327,586	-	327,586
Indirect cost allocation	3,066,899	(3,066,899)	-	-
Total	\$ 36,051,672	\$ 1,035,107	\$ 659,084	\$ 37,745,863

Element of Cost	Year Ended June 30, 2013			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 4,576,810	\$ 1,273,244	\$ 412,073	\$ 6,262,127
Fringe benefits	1,193,101	340,687	110,270	1,644,058
Printing and duplicating	130,478	57,859	11	188,348
Office supplies, service dues, publications, software, etc.	127,233	466,706	8,289	602,228
Travel, conferences and meetings	7,270,477	142,889	101,915	7,515,281
Communications	119,181	85,718	6,576	211,475
Office rent	329,400	713,305	8,499	1,051,204
Consultants, contracted services, and grants	9,245,866	5,364,812	8,500	9,789,178
Auditing	-	49,050	-	49,050
Insurance	-	51,222	-	51,222
Depreciation	-	330,125	-	330,125
Indirect cost allocation	1,881,375	(1,881,375)	-	-
Total	\$ 24,873,921	\$ 2,164,242	\$ 656,133	\$ 27,694,296

11. Federally Assisted Grant Programs

The Council participates in federally assisted grant programs. Although the Council has been audited in accordance with the provisions of OMB Circular A-133, these programs remain subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grants. The Council believes such disallowances, if any, will not be significant.

12. Operating Vulnerability

The Council is heavily dependent upon grants and contracts for its operations. If these funds were curtailed it would be necessary to curtail or eliminate several programs. The expectation is that the entities will continue funding many of the programs. In the event one funding source would terminate its relationship with the Council, management believes sufficient funding exists from other sources to continue the basic programs of the Council.

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Council of Chief State School Officers

Compliance Section

Year Ended June 30, 2014



***Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards***

Board of Directors
Council of Chief State School Officers

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of ***Council of Chief State School Officers*** (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 4, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

Tysons, Virginia
November 4, 2014



***Independent Auditors' Report on Compliance For
Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133***

Board of Directors
Council of Chief State School Officers

Report on Compliance for Each Major Federal Program

We have audited ***Council of Chief State School Officers'*** compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of ***Council of Chief State School Officers'*** major federal programs for the year ended June 30, 2014. ***Council of Chief State School Officers'*** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of ***Council of Chief State School Officers'*** compliance.

Opinion on Each Major Federal Program

In our opinion, ***Council of Chief State School Officers*** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Dixon Hughes Goodman LLP

Tysons, Virginia
November 4, 2014

Council of Chief State School Officers

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Granting Agency/Pass-Through/Program or Cluster Title	Federal CFDA Number	Grant Number	Federal Expenditures
Institute of Museum and Library			
Role of Libraries and Museums	43-Unknown	OE-00-12-0003-12	\$ 36,191
National Endowment for the Arts			
Arts Education Partnership	45.026	DCA 2012-18	149,477
Arts Education Partnership	45.026	DCA 2013-15	559,746
National Science Foundation			
<i>Pass Through RMC Research Corporation</i>			
Raising Secondary Mathematics	47.076	DRL-1020310	25,837
Math Standards	47.076	DRL-1259092	221,457
U.S. Department of Education			
NAGB Task Force	84-Unknown	ED-07-PO-1343	44,193
State Technical Operations Cooperative	84-Unknown*	ED-CFO-10-A-0091	156,072
CEEDAR	84.325	H325A120003	109,261
U.S. Department of Education			
<i>Pass Through Maryland State Department of Education</i>			
CAS Maryland and Ohio	84.412A	None	115,711
<i>Pass Through American Institute for Research</i>			
Comprehensive Center	84.283B*	S283B120021	199,356
<i>Pass Through Rutgers, The State University of New Jersey</i>			
Quality Assessment	84.283B*	S283B120054	140,919
<i>Pass Through University of Kansas Center for Research, Inc.</i>			
SWIFT	84.326Y	H326Y120005	<u>30,106</u>
Total Expenditures of Federal Awards			\$ <u>1,788,326</u>

*Denotes a major program

Council of Chief State School Officers

Notes to Schedule of Expenditures of Federal Awards

June 30, 2014

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of *Council of Chief State School Officers* (Council) under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of operations of the Council, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Council.

2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB *Circular A-122, Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Council of Chief State School Officers
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

- Material weakness (es) identified? ___ yes X no
- Significant deficiency (ies) identified? ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? ___ yes X no
- Significant deficiency (ies) identified? ___ yes X none reported

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

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

Identification of major programs:

Name of Federal Program or Cluster:

1. Comprehensive Center, CFDA 84.283B, Award #S283B120021
2. Quality Assessment, CFDA 84.283B, Award #S283B120054
3. State Technical Operations Cooperative, Award # ED-CFO-10-A-0091

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes ___ no

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

Council of Chief State School Officers
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

There were no prior year audit findings.

Council of Chief State School Officers

Corrective Action Plan

Year Ended June 30, 2014

There are no current audit findings.