

Financial Statements
Years Ended
June 30, 2008 and 2007

Council of Chief State School Officers



Certified Public Accountants
Specialized Services
Business Solutions

Council of Chief State School Officers

Contents

	Page
<i>Report of Independent Auditors</i>	1
<i>Financial Statements</i>	
<i>Statements of Financial Position</i>	2
<i>Statements of Activities</i>	3
<i>Statements of Cash Flows</i>	4
<i>Notes to Financial Statements</i>	5 - 11
<i>Compliance Reports</i>	
<i>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</i>	12 - 13
<i>Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133</i>	14 - 15
<i>Schedule of Expenditures of Federal Awards</i>	16
<i>Notes to Schedule of Expenditures of Federal Awards</i>	17
<i>Schedule of Findings and Questioned Costs</i>	18



Certified Public Accountants
Specialized Services
Business Solutions

Report of Independent Auditors

Board of Directors
Council of Chief State School Officers

We have audited the accompanying statements of financial position of *Council of Chief State School Officers* (a nonprofit organization) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of *Council of Chief State School Officers'* management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2008, 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 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 important for assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* for the year ended June 30, 2008, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Goodman & Company, LLP

McLean, Virginia
October 29, 2008

1430 Spring Hill Road, Suite 300
McLean, VA 22102-3018

An independent firm associated with
MOORE STEPHENS
INTERNATIONAL LIMITED

ph 703-970-0400
fax 703-970-0401

Council of Chief State School Officers

Statements of Financial Position

June 30,	2008	2007
Assets		
Cash and cash equivalents	\$ 10,475,206	\$ 14,587,264
Certificates of deposit	989,687	921,166
Contracts, grant and other accounts receivable	3,689,229	4,061,661
Prepaid expenses	465,708	613,163
Short-term investments	2,290,033	3,217,476
Equipment - net	530,980	590,319
Long-term investments	172,722	198,441
	<hr/>	<hr/>
	\$ 18,613,565	\$ 24,189,490
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,703,980	\$ 2,505,709
Advances on grants, contracts and dues	11,508,527	17,718,080
	<hr/>	<hr/>
Total liabilities	15,212,507	20,223,789
Net assets		
Unrestricted	3,253,479	3,816,979
Permanently restricted	147,579	148,722
	<hr/>	<hr/>
Total net assets	3,401,058	3,965,701
	<hr/>	<hr/>
	\$ 18,613,565	\$ 24,189,490

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

Council of Chief State School Officers

Statements of Activities

Years Ended June 30,	2008	2007
Change in unrestricted net assets:		
Revenues, gains and other support:		
Contracts, grants and sponsorships	\$ 26,173,558	\$ 21,685,170
Membership dues	2,112,352	2,042,376
Investment income	434,153	527,273
Net realized and unrealized gains (losses) on investments	(787,025)	752,834
Investment income and gains (losses and expenses) from permanently restricted investments	(24,576)	11,848
Registration fees	842,533	780,474
Other	387,327	247,498
Total unrestricted revenues, gains and other support	29,138,322	26,047,473
Expenses		
Programs and services	28,006,390	22,932,258
Management and general	1,355,022	1,718,743
Fundraising	340,410	280,130
Total expenses	29,701,822	24,931,131
Change in unrestricted net assets	(563,500)	1,116,342
Change in permanently restricted net assets:		
Investment income - net	7,704	5,534
Net realized and unrealized gains (losses) on investments	(33,423)	6,938
Less - unrestricted portion of investment income and gains (losses and expenses)	24,576	(11,848)
Change in permanently restricted net assets	(1,143)	624
Change in net assets	(564,643)	1,116,966
Net assets - beginning of year	3,965,701	2,848,735
Net assets - end of year	\$ 3,401,058	\$ 3,965,701

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,	2008	2007
Cash flows from operating activities		
Change in net assets	\$ (564,643)	\$ 1,116,966
Adjustments to reconcile to net cash from operating activities:		
Depreciation	198,599	157,942
Loss on disposal of equipment	-	57,763
Net realized and unrealized (gains) losses on investments	820,448	(759,772)
Permanently restricted transactions not affecting cash	(33,423)	6,938
Change in:		
Contracts, grants and other accounts receivable	372,432	308,253
Prepaid expenses	147,455	(27,040)
Accounts payable and accrued expenses	1,198,271	(5,359,619)
Advances on grants, contracts and dues	(6,209,553)	5,904,973
Net cash from operating activities	<u>(4,070,414)</u>	<u>1,406,404</u>
Cash flows from investing activities		
Purchase of equipment	(139,260)	(262,651)
Proceeds from sale of investments	214,933	73,918
Purchase of certificates of deposit	(489,089)	(293,088)
Redemption of certificates of deposit	431,000	97,000
Purchase of investments	(59,228)	(183,006)
Net cash from investing activities	<u>(41,644)</u>	<u>(567,827)</u>
Net change in cash and cash equivalents	(4,112,058)	838,577
Cash and cash equivalents - beginning of year	<u>14,587,264</u>	<u>13,748,687</u>
Cash and cash equivalents - end of year	<u>\$ 10,475,206</u>	<u>\$ 14,587,264</u>

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

Council of Chief State School Officers

Notes to Financial Statements

June 30, 2008 and 2007

1. Organization and Nature of Activities

The ***Council of Chief State School Officers*** (Council) is a nationwide, nonprofit 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. The Council had no temporarily restricted assets at June 30, 2008 and 2007.

Permanently restricted amounts - Permanently restricted amounts 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 3.5% to 5.25% (3.00% to 5.75% at June 30, 2007) and have maturities ranging from 7 months to 10 years (19 months to 9 years at June 30, 2007).

Investments

Investments are carried at market value and realized and unrealized gains and losses are reflected in the statements of activities.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are 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 for office equipment.

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, 2008 and 2007.

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. In addition, the Council qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). The Council did not have any unrelated business income for fiscal years 2008 and 2007.

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 bank deposit accounts that, at times, may exceed federally insured limits, up to \$100,000 (\$250,000 through December 31, 2009). The Council has not experienced any losses in such accounts. The Council's management believes it is not exposed to any significant credit risk on cash and cash equivalents. The amount in excess of federally insured limits at June 30, 2008 is approximately \$10,474,766. Approximately 18% of the Council's revenue and 62% of accounts receivable for fiscal year 2008 was provided by U.S. Department of Education grants. The Council has not experienced a loss as a result of this concentration. 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.

3. Equipment

Equipment consisted of the following:

	<u>2008</u>	<u>2007</u>
Office equipment	\$ 2,065,677	\$ 1,926,417
Less-accumulated depreciation	<u>(1,534,697)</u>	<u>(1,336,098)</u>
	<u>\$ 530,980</u>	<u>\$ 590,319</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 statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Aggregate market values are summarized as follows:

	<u>2008</u>	<u>2007</u>
Short-term investments		
Equity securities	\$ 2,290,033	\$ 3,217,476
Long-term investments		
Equity securities	\$ 146,605	\$ 139,683
Cash management fund	26,117	58,758
	<u>\$ 172,722</u>	<u>\$ 198,441</u>

Investment income (expense) is summarized as follows:

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 434,153	\$ 527,273
Net realized and unrealized gains (losses)	(787,025)	752,834
	<u>\$ (352,872)</u>	<u>\$ 1,280,107</u>

5. Permanently Restricted Net Assets

Permanently restricted net assets are as follows:

	<u>2008</u>	<u>2007</u>
NTOY Endowment	\$ 147,579	\$ 148,722

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

6. 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 2008 and 2007 was \$401,940 and \$452,774, respectively.

7. Commitments

The Council has various operating leases that expire through April 2011.

The operating lease for office space terminates on December 31, 2011. 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 are:

<u>Year Ending June 30,</u>	<u>Office Space</u>	<u>Equipment</u>
2009	\$ 1,053,530	\$ 62,161
2010	1,074,601	27,384
2011	1,096,093	8,077
2012	564,542	-
	<u>\$ 3,788,766</u>	<u>\$ 97,622</u>

8. Fiscal Agent Agreement

On September 28, 2006, 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, 2007. IMEC has agreed to pay the Council a fiscal agent fee of 10% on all IMEC expenditures. For the fiscal years ended June 30, 2008 and 2007, IMEC paid the Council \$36,649 and \$32,249, respectively, under this agreement.

9. Significant Award

In May 2004, the Council received awards from the Bill & Melinda Gates Foundation and the Broad Foundation to be used in the creation of a web-based national education data service that provides in-depth information and analysis about public schools, districts and state education systems. The combined amount of the awards was \$45,000,000. The Council entered into an agreement with Standard & Poor's for them to provide services in conjunction with the data partnership to the Council in the amount of \$40,000,000.

During 2008 and 2007, the Council received no payments from these awards, and recognized revenue of \$1,514,605 and \$876,347, respectively. The Council had no deferred revenue as of June 30, 2008 and deferred revenue of \$1,514,605 as of June 30, 2007 from these awards.

In April 2007, the Council received a continuation award from the Bill & Melinda Gates Foundation in the amount of \$17,000,000. The Council entered into an agreement with Standard & Poor's to continue to provide services under this new award in the amount of \$14,500,000. During 2007, the Council received an award payment of \$11,000,000 and recognized revenue of \$4,263,785. As of June 30, 2007, the Council had deferred revenue of \$6,736,215, resulting from this award. During 2008, the Council received an award payment of \$5,000,000 and recognized revenue of \$7,160,572. As of June 30, 2008, the Council had deferred revenue of \$4,575,643, resulting from this award.

10. Functional Expenses

Year Ended June 30, 2008

Element of Cost	Programs and Services	Management and General	Fundraising	Total
Salaries	\$ 3,116,055	\$ 1,148,490	\$ 147,118	\$ 4,411,663
Fringe benefits	814,890	300,290	38,471	1,153,651
Printing and duplicating	190,936	82,948	7,434	281,318
Office supplies, service dues, publications, software, etc.	324,336	256,972	27,221	608,529
Travel, conferences and meetings	5,862,003	145,232	92,286	6,099,521
Communications	58,970	73,062	2,782	134,814
Office rent	344,396	692,263	11,254	1,047,913
Consultants, contracted services, and grants	15,292,070	366,197	13,844	15,672,111
Auditing	-	35,500	-	35,500
Insurance	-	58,203	-	58,203
Depreciation	-	198,599	-	198,599
Indirect cost allocation	2,002,734	(2,002,734)	-	-
Total	\$ 28,006,390	\$ 1,355,022	\$ 340,410	\$ 29,701,822

Year Ended June 30, 2007

Element of Cost	Programs and Services	Management and General	Fundraising	Total
Salaries	\$ 3,148,420	\$ 1,419,988	\$ 149,091	\$ 4,717,499
Fringe benefits	824,721	371,962	39,054	1,235,737
Printing and duplicating	194,029	62,671	1,772	258,472
Office supplies, service dues, publications, software, etc.	216,140	223,130	7,670	446,940
Travel, conferences and meetings	5,370,286	150,931	62,488	5,583,705
Communications	202,858	91,716	2,616	297,190
Office rent	339,442	580,811	9,289	929,542
Consultants, contracted services, and grants	10,785,046	359,888	8,150	11,153,084
Auditing	-	30,907	-	30,907
Insurance	-	62,350	-	62,350
Depreciation	-	157,942	-	157,942
Loss on disposal of equipment	-	57,763	-	57,763
Indirect cost allocation	1,851,316	(1,851,316)	-	-
Total	\$ 22,932,258	\$ 1,718,743	\$ 280,130	\$ 24,931,131

