

Mary Taylor, CPA  
Auditor of State



**OHIO SCHOOLS COUNCIL  
CUYAHOGA COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Ohio Schools Council  
Cuyahoga County  
6133 Rockside Road, Suite 10  
Independence, Ohio 44131

To the Board of Directors

We have audited the accompanying financial statements of the governmental activities, the general fund, and the aggregate remaining fund information of the Ohio Schools Council, Cuyahoga County, Ohio, (the Council) as of and for the year ended June 30, 2008, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the general fund, and the remaining fund information of the Ohio Schools Council, Cuyahoga County, Ohio, as of June 30, 2008, and the changes in financial position for the year 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 February 6, 2009, on our consideration of the Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Ohio Schools Council  
Cuyahoga County  
Independent Accountants' Report  
Page 2

Management's Discussion and Analysis and the budgetary comparison for the General Fund are not a required part of the basic financial statements but are supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



**Mary Taylor, CPA**  
Auditor of State

February 6, 2009

**Ohio Schools Council**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*  
*Unaudited*

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The discussion and analysis of Ohio Schools Council's (the Council) financial performance provides an overall review of the Council's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Council's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Council's financial performance.

## **Financial Highlights**

Key financial highlights for 2008 are as follows:

- Net assets of governmental activities increased \$939,455, which represents a 16.51 percent increase over 2007. The Council has no business-type activities.
- For governmental activities, general revenues accounted for \$465,265 in revenue or 21.88 percent of all revenues. Program specific revenues in the form of charges for services accounted for \$1.7 million or 78.12 percent of total revenues.
- The Council had \$1,187,002 in expenses related to governmental activities; all of these expenses were offset by program specific charges for services.
- The general fund, the Council's only operating fund, had \$2,126,457 in revenues and \$1,170,428 in expenditures. The general fund's balance increased \$956,029 to \$6,614,479.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Council's basic financial statements. The Council's financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

***Government-wide Financial Statements.*** The government-wide financial statements are designed to provide the reader with a broad overview of the Council's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Council's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Council is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected receivables and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Council that are principally supported by user fees and charges and the program expenses used to operate during the fiscal year.

The government-wide financial statements can be found on pages 12-13 of this report.

**Ohio Schools Council**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*  
*Unaudited*

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**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Council, like State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Council can be divided into two categories: governmental and fiduciary funds.

**Governmental Funds** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Council maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, which is considered to be the major fund.

The basic fund financial statements can be found on pages 14-17 of this report.

**Fiduciary Funds** The fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the Council's own programs. Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trusts funds and agency funds. Trust funds are used to account for assets held by the Council under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Council's only fiduciary funds are agency funds.

The basic fiduciary fund financial statement can be found on page 18 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-32 of this report.

**Ohio Schools Council**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*  
*Unaudited*

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### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Council, assets exceeded liabilities by \$6.6 million at the close of the most recent fiscal year.

Ninety-nine percent of the Council's net assets (\$6.6 million) reflect its unrestricted net assets. The Council uses these unrestricted net assets to meet ongoing obligations to creditors. Only one percent of the net assets (\$45,545) are investments in capital assets (e.g., equipment and furniture). The Council uses these capital assets to provide services to the school districts; consequently, these assets are not available for future spending.

At the end of the current fiscal year, the Council is able to report positive balances in both categories of net assets in the governmental activities. The same situation held true for the prior fiscal year.

The table below shows net assets for fiscal year 2008 compared to the fiscal year 2007.

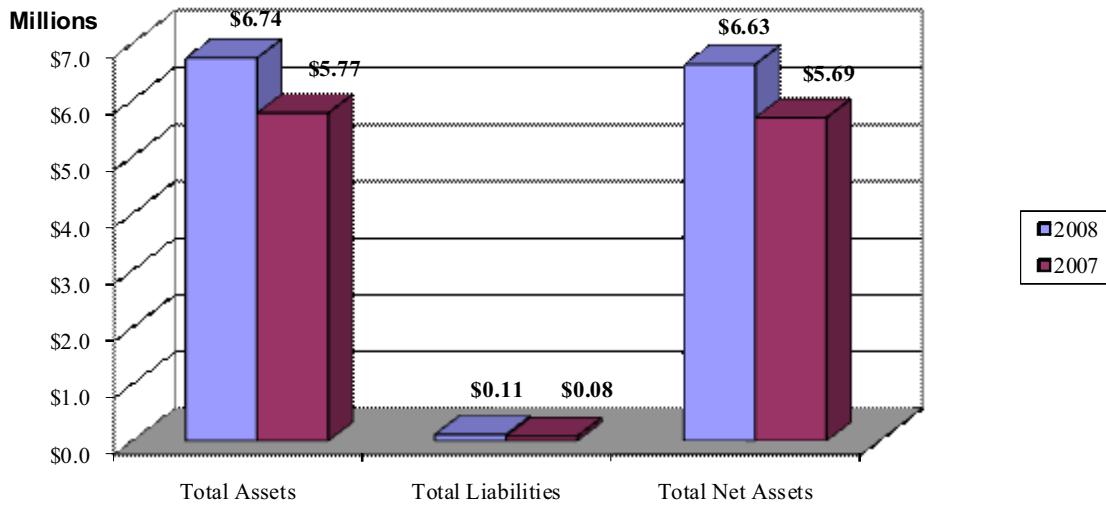
**Table 1 - Net Assets**

	Governmental Activities		
	2008	2007	Change
<b>Assets</b>			
Current and Other Assets	\$6,692,636	\$5,718,649	\$973,987
Capital Assets	45,545	51,443	(5,898)
<i>Total Assets</i>	<i>6,738,181</i>	<i>5,770,092</i>	<i>968,089</i>
<b>Liabilities</b>			
Current Liabilities	80,668	61,659	19,009
Long-term Liabilities	29,498	19,873	9,625
<i>Total Liabilities</i>	<i>110,166</i>	<i>81,532</i>	<i>28,634</i>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Debt	45,545	51,443	(5,898)
Unrestricted	6,582,470	5,637,117	945,353
<i>Total Net Assets</i>	<i>\$6,628,015</i>	<i>\$5,688,560</i>	<i>\$939,455</i>

**Ohio Schools Council**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*  
*Unaudited*

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**Governmental Activities - Net Assets (In Million)**



As noted above, the Council's net assets increased by \$939,455. This increase is due to an increase in cash as the result of revenues growing at a larger rate than expenses.

***Governmental Activities***

The table below shows changes in net assets for fiscal year 2008 compared to the prior fiscal year.

**Table 2 - Changes in Net Assets**

	Governmental Activities		
	2008	2007	Change
<b>Revenue:</b>			
Program Revenues:			
Charges for Services	\$1,661,192	\$1,861,795	(\$200,603)
General Revenues:			
Investment Earnings	290,963	311,184	(20,221)
Miscellaneous	174,302	139,578	34,724
Total General Revenues	<u>465,265</u>	<u>450,762</u>	<u>14,503</u>
<i>Total Revenues</i>	<u><i>\$2,126,457</i></u>	<u><i>\$2,312,557</i></u>	<u><i>(\$186,100)</i></u>

**Ohio Schools Council**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*  
*Unaudited*

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**Table 2 - Changes in Net Assets (continued)**

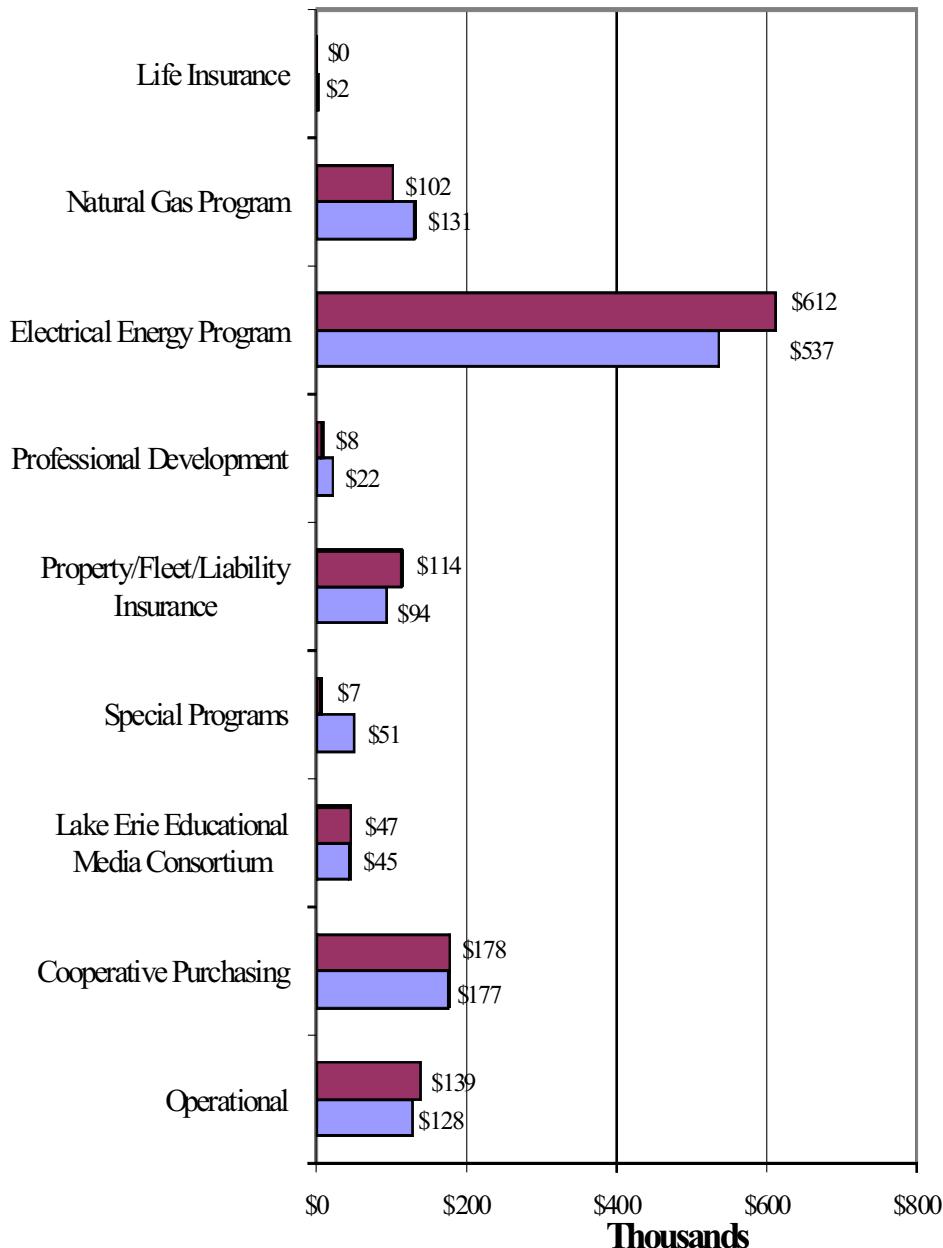
	Governmental Activities		
	2008	2007	Change
<b>Expenses:</b>			
Operational	\$128,123	\$138,979	(\$10,856)
Cooperative Purchasing	176,974	177,800	(826)
Lake Erie Educational Media Consortium	45,241	46,790	(1,549)
Special Programs	50,554	6,585	43,969
<b>Insurance Programs:</b>			
Property/Fleet/Liability Insurance	94,070	114,252	(20,182)
Life Insurance	1,900	16	1,884
Professional Development	22,118	8,126	13,992
<b>Utility Programs:</b>			
Electrical Energy	536,768	612,237	(75,469)
Natural Gas Program	131,254	102,173	29,081
<i>Total Expenses</i>	<u>1,187,002</u>	<u>1,206,958</u>	<u>(19,956)</u>
<i>Increase in Net Assets</i>	939,455	1,105,599	(166,144)
<i>Net Assets Beginning of Year</i>	<u>5,688,560</u>	<u>4,582,961</u>	<u>1,105,599</u>
<i>Net Assets End of Year</i>	<u>\$6,628,015</u>	<u>\$5,688,560</u>	<u>939,455</u>

Although the Ohio Schools Council and various program memberships continued to grow, the charges for services decreased in fiscal year 2008. This is because the commissions collected from the Property, Fleet and Liability Insurance Program agents was \$169,416 in fiscal year 2008 compared to \$346,000 in fiscal year 2007. Investment earnings were substantially lower in fiscal year 2008 than fiscal year 2007 because interest rates fell.

**Ohio Schools Council**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*  
*Unaudited*

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**Program Expenses - Governmental Activities**

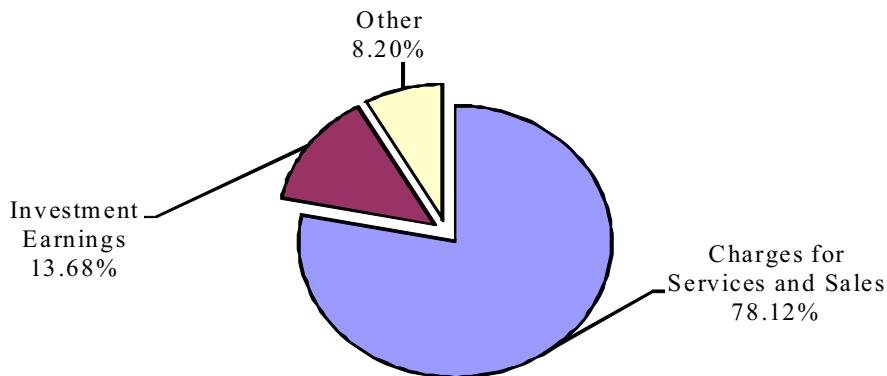


For each program, the column on the top represents 2008 expenses and the column on the bottom represents 2007 expenses.

**Ohio Schools Council**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*  
*Unaudited*

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### Revenues by Sources - Governmental Activities



### Financial Analysis of the Governmental Fund

**Governmental Fund.** Information about the Council's governmental fund starts on page 14. This fund is accounted for using the modified accrual basis of accounting. The Council only has one governmental fund; the general fund, which is the chief operating fund of the Council. The general fund had total revenues over \$2 million and expenditures of \$1.2 million. The total general fund balance increased by \$956,029 to \$6.6 million for fiscal year 2008. All of the fund balance is unreserved. As a measure of the general fund's liquidity, it may be useful to compare both expenditures to unreserved fund balance. General fund expenditures represent 18 percent of total unreserved fund balance.

### Capital Assets

At the end of fiscal year 2008, the Council had \$45,545 invested in furniture and equipment all used for governmental activities.

**Table 3 - Capital Assets (Net of Accumulated Depreciation)**

	Governmental Activities	
	2008	2007
Furniture and Equipment	\$45,545	\$51,443

The Council continued its ongoing commitment to maintaining and improving its capital assets. For more information on the Council's capital assets, see Note 7.

### Debt

The Council had no bonded debt in fiscal year 2008.

**Ohio Schools Council**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2008*  
*Unaudited*

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### **Current Issues Affecting Financial Condition**

The finances of the Council are dependent upon school district membership dues, and participation of school districts and municipalities in various programs offered through the Council for which the Council charges fees. The municipalities cannot join the Council, but can participate in the programs offered by the Council. The Council currently has five cities participating in the cooperative purchasing program. Membership in the Council has grown to 121 districts. Participation in Council programs has also been slightly growing over the past several years.

The mission of the Council is to provide districts the opportunity to buy products and services at significantly reduced prices. The Council has negotiated significant savings for school districts to purchase natural gas, electricity, various types of insurance, and various types of supplies and equipment. Long-term contracts have been negotiated for the purchase of natural gas and electricity, which assures a significant revenue stream for the Council through 2008 for the Electric Program and through 2011 for the Natural Gas Program. The Council receives fees from districts for their participation in a property, fleet and general liability insurance program, cooperative purchasing program, school bus purchasing program, and Lake Erie Educational Media Consortium (LEEMC). Changes in the number of districts participating in any of these programs will affect the total revenue of the Council.

### **Contacting the Council's Financial Management**

This financial report is designed to provide our members, investors and creditors with a general overview of the Council's finances and to show the Council's accountability for money it receives. If you have questions about this report or need additional financial information, contact David Cottrell, Executive Director, at 6133 Rockside Road, Suite 10, Independence, Ohio 44131.

**Ohio Schools Council**  
*Statement of Net Assets*  
*June 30, 2008*

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**Governmental  
Activities**

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**Assets**

Equity in Pooled Cash and Cash Equivalents	\$6,637,570
Accounts Receivable	5,332
Prepaid Items	48,019
Materials and Supplies Inventory	1,715
Depreciable Capital Assets	<u>45,545</u>
 <i>Total Assets</i>	 <u>6,738,181</u>

**Liabilities**

Accounts Payable	78,157
Vacation Benefits Payable	2,511
Long-Term Liabilities:	
Due Within One Year	7,174
Due in More Than One Year	<u>22,324</u>
 <i>Total Liabilities</i>	 <u>110,166</u>

**Net Assets**

Invested in Capital Assets	45,545
Unrestricted	<u>6,582,470</u>
 <i>Total Net Assets</i>	 <u>\$6,628,015</u>

See accompanying notes to the basic financial statements

**Ohio Schools Council**  
*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2008*

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	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Governmental Activities
<b>Governmental Activities</b>			
Operational	\$128,123	\$171,906	\$43,783
Cooperative Purchasing	176,974	248,910	71,936
Lake Erie Educational Media Consortium	45,241	63,630	18,389
Special Programs	50,554	71,103	20,549
Insurance Programs:			
Property/Fleet/Liability Insurance	94,070	132,307	38,237
Life Insurance	1,900	2,672	772
Professional Development	22,118	31,109	8,991
Utility Programs:			
Electrical Energy	536,768	754,950	218,182
Natural Gas	131,254	184,605	53,351
<i>Total Primary Government</i>	<u>\$1,187,002</u>	<u>\$1,661,192</u>	<u>474,190</u>
<b>General Revenues</b>			
Investment Earnings			290,963
Miscellaneous			<u>174,302</u>
<i>Total General Revenues</i>			<u>465,265</u>
Change in Net Assets			939,455
<i>Net Assets Beginning of Year</i>			
<i>Restated (See Note 3)</i>			<u>5,688,560</u>
<i>Net Assets End of Year</i>			<u>\$6,628,015</u>

See accompanying notes to the basic financial statements

**Ohio Schools Council**

*Balance Sheet  
Governmental Fund  
June 30, 2008*

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**General**

**Assets**

Equity in Pooled Cash and Cash Equivalents	\$6,637,570
Accounts Receivable	5,332
Prepaid Items	48,019
Materials and Supplies Inventory	<u>1,715</u>
<i>Total Assets</i>	<u><u>\$6,692,636</u></u>

**Liabilities and Fund Balance**

**Liabilities**

Accounts Payable	\$78,157
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**Fund Balance**

Unreserved, Undesignated	<u>6,614,479</u>
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<i>Total Liabilities and Fund Balance</i>	<u><u>\$6,692,636</u></u>
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See accompanying notes to the basic financial statements

**Ohio Schools Council**  
*Reconciliation of Total Governmental Fund Balance to  
Net Assets of Governmental Activities  
June 30, 2008*

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<b>Total Governmental Funds Balance</b>	\$6,614,479
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	45,545
Vacation benefits payable is not expected to be paid with expendable available resources and therefore not reported in the funds.	(2,511)
Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	<u>(29,498)</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$6,628,015</u></u>

See accompanying notes to the basic financial statements

**Ohio Schools Council**  
*Statement of Revenues, Expenditures and Changes in Fund Balance*  
*Governmental Fund*  
*For the Fiscal Year Ended June 30, 2008*

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	<u>General</u>
<b>Revenues</b>	
Interest	\$290,963
Charges for Services	1,636,464
Tuition and Fees	24,728
Miscellaneous	<u>174,302</u>
<i>Total Revenues</i>	<u>2,126,457</u>
<b>Expenditures</b>	
Current:	
Operational	111,549
Cooperative Purchasing	176,974
Lake Erie Educational Media Consortium	45,241
Special Programs	50,554
Insurance Programs:	
Property/Fleet/Liability Insurance	94,070
Life Insurance	1,900
Professional Development	22,118
Utility Programs:	
Electrical Energy Program	536,768
Natural Gas Program	<u>131,254</u>
<i>Total Expenditures</i>	<u>1,170,428</u>
<i>Net Change in Fund Balance</i>	<u>956,029</u>
<i>Fund Balance Beginning of Year</i>	<u>5,658,450</u>
<i>Fund Balance End of Year</i>	<u>\$6,614,479</u>

See accompanying notes to the basic financial statements

**Ohio Schools Council**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balance of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2008*

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<b>Net Change in Fund Balance -Total Governmental Funds</b>	\$956,029
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*Amounts reported for governmental activities in the  
statement of activities are different because*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Asset Additions	3,162
Current Year Depreciation	<u>(9,060)</u>
Total	(5,898)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Vacation Benefits Payable	(1,051)
Compensated Absences	<u>(9,625)</u>
Total	<u>(10,676)</u>

*Change in Net Assets of Governmental Activities* \$939,455

See accompanying notes to the basic financial statements

**Ohio Schools Council**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2008*

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	Agency
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$3,922,752</u>
<b>Liabilities</b>	
Undistributed Monies	<u>\$3,922,752</u>

See accompanying notes to the basic financial statements

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**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2008*

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## **Note 1 – Description of the Council and Reporting Entity**

The Ohio Schools Council, Cuyahoga County, Ohio, (the Council) is a jointly governed organization established under Chapter 167, Revised Code, in 1986. The Council was created by school districts for the purpose of saving money through volume purchases. The Council consists of 121 school districts throughout Ohio. Each school district member superintendent serves as a representative of the Assembly. The Assembly is the legislative body of the Council. The Council operates under a nine-member Board of Directors (the Board). Five members of the Board are selected by the Assembly from among the member districts, and the remaining four are the representatives of the president, president-elect, past president and treasurer of the Greater Cleveland School Superintendents' Association. The Board is the policy making authority of the Council. The Board meets monthly September through June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board.

### ***A. Description of the Entity***

The Council provides services primarily in the area of procurement. The Council also negotiates on behalf of its members and other not-for-profit entities to contract for supplies, books, buses, property, fleet and casualty insurance, employee life insurance, electrical energy, and natural gas.

Members and other not-for-profit entities contribute amounts sufficient to cover substantially all annual costs of the Council through program administration fees. Upon termination of the Council, surpluses remaining in any Council Program, after payment of all known obligations, will be distributed to the participating members in the manner provided in the Program Agreement. After payment of all known obligations of the Council, other than those incurred in connection with any program, any surplus remaining in the Council general fund shall be distributed among the members in the same proportion to the total remaining as the amount of each member's total share of operating costs incurred.

The reporting entity for the Council is comprised of all departments, boards and agencies that are not legally separate from the Council and any other organizations that would need to be included to ensure that the financial statements of the Council are not misleading.

Component units are legally separate organizations for which the Council is financially accountable. The Council is financially accountable for an organization if the Council appoints a voting majority of the organization's governing board and (1) the Council is able to significantly influence the programs or services performed or provided by the organization; or (2) the Council is legally entitled to or can otherwise access the organization's resources; the Council is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Council is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Council in that the Council approves the budget, the issuance of debt or the levying of taxes. The Council has no component units.

## **Note 2 - Summary of Significant Accounting Policies**

The financial statements of the Council have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Council also applies Financial Accounting Standards Board

**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2008*

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(FASB) statements and interpretations issued on or after November 30, 1989, to its governmental activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of Council's accounting policies are described below.

***A. Basis of Presentation***

The Council's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the Council as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the Council that are governmental and those that are considered business-type. The Council, however, has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Council at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Council's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Council, within certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which governmental function is self-financing or draws from the general revenues of the Council.

***Fund Financial Statements*** During the fiscal year, the Council segregates transactions related to certain Council functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Council at this more detailed level. The Council's general fund is its only governmental fund.

***B. Fund Accounting***

The Council uses fund accounting to segregate cash and investments that are restricted as to use. A fund is a separate accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and attaining certain objectives in accordance with special regulations, restrictions or limitations.

For financial statement presentation purposes, the Council's funds are classified as either governmental or fiduciary.

***Governmental Funds*** Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be repaid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Council's only governmental fund:

**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
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**General Fund** The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Council under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Council's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Council had the following significant Agency Funds:

*Natural Gas Program Fund:* This fund is used to account for assets held by the Council as an agent for member entities involved in the Council-administered natural gas program.

*Property/Fleet Insurance Fund:* This fund is used to account for assets held by the Council as an agent for member entities involved in the Council-administered property/fleet insurance purchasing program.

*Life Insurance Fund:* This fund is used to account for assets held by the Council as an agent for member entities life insurance premiums.

#### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Council are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

**Fund Financial Statements** The General Fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the General Fund.

#### **D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The General Fund uses the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. The Council defines available as expected to be received within sixty days of fiscal year-end.

**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2008*

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Non-exchange transactions, in which the Council receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Council must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Council on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: interest, charges for services and fees.

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

***E. Budgetary Process***

The Council is not bound by the budgetary laws prescribed by the Ohio Revised Code. The Council passes an annual budget prior to the beginning of the fiscal year. Appropriations and subsequent amendments are approved by the Board of Directors during the year as required. See supplemental information on page 33.

***F. Cash and Investments***

Cash received by the Council is pooled in a central bank account. Monies for all funds are maintained in this account. Individual fund integrity is maintained through the Council's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2008, the Council's investments were limited to certificates of deposit, repurchase agreements, Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Notes, and STAROhio.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2008.

**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2008*

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**G. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2008 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventories consist of materials and supplies held for consumption.

**I. Capital Assets**

All capital assets of the Council are classified as general capital assets. These assets generally result from expenditures in the governmental funds. They are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost and updated for additions and retirements during the year. The Council was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their fair market values as of the date received. The Council maintains a capitalization threshold of five hundred dollars. The Council does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Furniture and Equipment	5 – 40 years

**J. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Council will compensate the employees for the benefits through paid time off or some other means. The Council records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. Up to five unused vacation days may be carried forward and must be used by August 30. If the employee does not use the five vacation days within the prescribed time, the employee loses that time.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Council has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Council's termination policy. The Council records a liability for accumulated unused sick leave for all employees after five years of service.

**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2008*

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**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, contractually required pension contributions, and special termination benefits that will be paid from the governmental fund are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**L. Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Council or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Council applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**N. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence.

**Note 3 – Change in Accounting Principles and Restatement of Prior Year Net Assets**

**A. Change in Accounting Principles**

For fiscal year 2008, the Council has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, GASB Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”, and GASB Statement No. 50, “Pension Disclosures”.

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees’ years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The implementation of this statement did not result in any change to the financial statements. An OPEB liability at transition was determined in accordance with this Statement for the SERS post-employment healthcare plan in the amount of \$27,491, which is the same as the previously reported liability.

**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2008*

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GASB Statement No. 48 addresses how to account for the exchange of interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

***B. Restatement of Prior Year Net Assets***

At June 30, 2007, net assets for governmental activities were restated due to the useful lives of the capital assets being understated. This restatement increased net assets at June 30, 2007 by \$12,109, from \$5,676,451 to \$5,688,560.

**Note 4 – Cash and Investments**

Monies held by the Council are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Council treasury. Active monies must be maintained either as cash in the Council treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Council can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;

**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2008*

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5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

### **Deposits**

**Custodial Credit Risk** Custodial credit risk for deposits is the risk that in the event of bank failure, the Council will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$8,132,254 of the Council's bank balance of \$8,481,173 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Council to a successful claim by the FDIC.

The Council has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Council or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

### **Investments**

Investments are reported at fair value. As of June 30, 2008, the Council had the following investments:

Investment	Fair Value	Majority (in Years)	
		Less than 1	1-3
Federal Home Loan Bank Bonds	\$992,870	\$992,870	\$0
Federal Home Loan			
Mortgage Corporation Notes	998,981	0	998,981
Repurchase Agreements	463,700	463,700	0
STAROhio	119,488	119,488	0
Total	<u>\$2,575,039</u>	<u>\$1,576,058</u>	<u>\$998,981</u>

**Interest Rate Risk** As a means of limiting its exposure to fair value losses caused by rising interest rates, the Council's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the Council's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2008*

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**Credit Risk** The Federal Home Loan Bank Bonds and the Federal Home Loan Mortgage Corporation Notes carry a rating of AAA by Standard & Poor's and STAROhio also carries a rating of AAAm by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Council has no investment policy that addresses credit risk.

**Concentration of Credit Risk** The Council places no limit on the amount it may invest in any one issuer. The following is the Council's allocation as of June 30, 2008:

Investment	Percentage of Investments
Federal Home Loan Bank Bonds	38.56%
Federal Home Loan	
Mortgage Corporation Notes	38.79
Repurchase Agreements	18.01
STAROhio	4.64

## **Note 5 – Receivables**

Receivables at June 30, 2008 consisted of only accounts receivable. All receivables are considered collectible in full within one year.

## **Note 6 – Employee Benefits**

### **A. Compensated Absences**

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Only contracted personnel who are under a 260-day contract are eligible for vacation time.

Staff members employed with a 260-day contract are entitled to the following vacation day schedule:

- Five days per year (first year)
- Ten days per year (2nd through 5th year)
- Fifteen days per year (6th through 11th year)
- Twenty days per year (12th year and thereafter)

Days in the above schedule refer to workdays. Up to five unused vacation days may be carried forward and must be used by August 30. If an employee does not use the five unused vacation days within the prescribed time, the employee loses that time.

Upon retirement or voluntary separation from the organization, accumulated sick leave may be paid to the employee on the following basis:

- After five years of continuous employment with the Council, the employee is entitled to receive payment at his/her per diem rate of up to one-fourth of accumulated sick leave not to exceed 15 days.

**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2008*

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- After ten years of continuous service with the Council, the employee is entitled to receive payment of his/her per diem rate up to one-fourth of accumulated sick leave not to exceed 30 days.
- After twenty years of continuous employment with the Council, the employee is entitled to receive payment at his/her per diem rate of up to one-fourth of accumulated sick leave not to exceed 45 days.

Payment to the employee of this benefit shall eliminate all accumulated sick leave. Employees who retire or take a voluntary separation from the organization shall request severance pay within 3 months of leaving the Council.

Sick leave shall be accrued according to the following schedule:

260 contract days	15 sick days per year
200 contract days	10 sick days per year
150 contract days	8 sick days per year
70 contract days	5 sick days per year.

Sick leave may accumulate over time to equal the number of work days as found in each employee's annual contract.

***B. Insurance Benefits***

The Council has elected to provide employee medical, dental and life insurance benefits through a private carrier.

For individuals employed with 260-day contracts, prior to August 1, 2005, the Council shall pay 100 percent of the cost of medical and dental insurance.

For individuals employed with a 260-day contract after August 1, 2005, the Council shall pay 80 percent of the cost of medical and dental insurance.

The Council pays up to \$500 per month towards the cost for the medical and dental insurance provided for the Executive Director and Assistant Executive Director. In lieu of medical and dental insurance, the Executive Director and/or Assistant Executive Director may chose to receive a stipend of \$500 per month. This stipend may be taken either as reimbursement of medical expenses or deposited in an annuity. This stipend is not considered part of the salary for the positions.

The Council pays for life insurance in the amount of 2.5 times the employee's annual salary; including the employee's share of SERS retirement cost, but not pick-up on the pick-up.

In lieu of vision insurance, the Council reimburses employees up to \$200 per year for vision related expenses, such as eye examination, glasses, and/or contacts, upon submission of receipts.

**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2008*

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**Note 7 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

	Restated Balance 7/1/2007	Addition	Deletion	Balance 6/30/2008
<b>Governmental Activities</b>				
<i>Capital Assets, being depreciated:</i>				
Furniture and Equipment	\$102,850	\$3,162	\$0	\$106,012
Less Accumulated Depreciation	<u>(51,407)</u>	<u>(9,060) *</u>	<u>0</u>	<u>(60,467)</u>
Governmental Activities Capital Assets, Net	<u>\$51,443</u>	<u>(\$5,898)</u>	<u>\$0</u>	<u>\$45,545</u>

\* Depreciation expense was charged to the operational function.

**Note 8 – Long Term Obligations**

The changes in the Council long-term obligations during fiscal year 2008 were as follows:

	Principal Outstanding 7/1/2007	Additions	Deductions	Principal Outstanding 6/30/2008	Amount Due in One Year
<b>Governmental Activities</b>					
Compensated Absences	<u>\$19,873</u>	<u>\$17,057</u>	<u>(\$7,432)</u>	<u>\$29,498</u>	<u>\$7,174</u>

**Note 9 – Defined Benefit Pension Plan**

Plan Description - The Council contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Council is required to contribute at an actuarially determined rate. The current Council rate is 14 percent of annual covered payroll. A portion of the Council's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Council's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$60,243, \$55,367 and \$51,712 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2008*

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## **Note 10 – Postemployment Benefits**

Plan Description – The Council participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, there were none.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Council's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$27,491, \$18,382, and \$17,923 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The Council's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$4,341, \$3,765, and \$3,735 respectively; 100 percent has been contributed for fiscal years 2008, 2007 and 2006.

## **Note 11 – Risk Management**

### **A. Property and Liability**

The Council is exposed to various risks of loss related to torts; theft, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year the Council contracted with Todd Associates, Incorporated for all insurance. The types of coverage and deductibles are as follows:

**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2008*

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Type of Coverage	Coverage	Deductible
Directors' and Officers Liability	\$2,000,000	\$1,000
Employment Practices Liability	2,000,000	2,500
Trustee and Fiduciary Liability	2,000,000	2,500
Employee Dishonesty Bond	1,000,000	2,500
General Liability	1,000,000	1,000
Commercial Property	50,000	1,000
Professional Liability	1,000,000	1,000

Settled claims have not exceeded this commercial coverage in any of the past three years.

***B. Workers' Compensation***

The Council pays the Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**Note 12 – Lease Obligations**

On June 28, 2005, the Council entered into an operating lease with Rockside Square II, for the period of December 1, 2005 to November 30, 2008, for the rental of the space located at 6133 Rockside Road. The terms of the lease require payment in monthly installments in the amount of \$3,500.

**Note 13 – Major Programs**

The Ohio School Council administers two major programs:

***Electricity Program***

In 2005, Energy Acquisition Corporation II, a non-profit corporation with a self-appointing board, issued \$246,355,000 in bonds and on the same date an electricity prepayment of \$241,685,363 covering the period May 2005 through December 2008 was made by Energy Acquisition Corporation II on behalf of 249 Ohio school districts and county boards of mental retardation and developmental disabilities (MR/DD) to the supplier, First Energy, Inc. This created a program for the Ohio Schools Council called Energy for Education II. The Council provides 238 school districts and 11 MR/DD boards in the First Energy territory (Cleveland Electric Illuminating, Ohio Edison, Toledo Edison) the ability to purchase electricity at reduced rates if the school district committed to participating in either a thirty-six month (Cleveland Electric Illuminating Company) or a forty-four month (Ohio Edison and Toledo Edison) program beginning either May 1, 2005 or January 1, 2006 and ending December 31, 2008. Each month, the Council invoices participants based on estimated usage that was determined when the program was established. Each September, these estimated payments are compared to their actual usage for the year (July to June). Refund checks are issued to districts that consumed less than their projected usage of electrical energy and districts that over-consumed are invoiced. A trustee uses the payments to make principal and interest payments on the bonds. If a participating school district terminates its agreement, the district is required to repay the savings to First Energy and First Energy will refund the remaining prepayment for that participant to Energy Acquisition Corporation II to be used to redeem a portion of the outstanding bonds.

**Ohio Schools Council**  
*Notes to the Basic Financial Statements*  
*For the Year Ended June 30, 2008*

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***Natural Gas Program***

The Ohio Schools Council entered into a contract with CMS Energy Corporation, of Jackson, Michigan in 1999 to supply natural gas to participating school districts for 12 years. Under the agreement, the City of Hamilton, Ohio prepaid CMS for 44 billion cubic feet of gas to be delivered from November 1, 1999 to October 31, 2011 by issuing \$89,450,000 in bonds. This transaction locked in a twelve-year firm supply of natural gas at favorable market rates for the benefit of all participants. In August 2006 CMS Energy Corporation opted to no longer participate in the prepaid gas program and defeased the outstanding bonds. \$58,455,232 was placed on deposit with US Bank a sufficient amount of government securities to pay off all the outstanding bonds as they come due through November 2011. This prepaid gas program was terminated during fiscal year 2007.

An interim supply agreement was approved with Exelon Energy for one year beginning August 2006 that was renewed in October 2007 and is effective until September 30, 2008. The original members of the prepaid natural gas program continued to participate in the natural gas aggregation program with no new program agreement.

New members that joined from August 2006 to June 2008 used the program agreement and resolution to secure board approval to participate. In June 2008 a revised agreement was used to board approve membership. Both agreements have an indefinite term and provide the option to withdraw from the program by sending written notification by certified mail on or before September 15 of the fiscal year proceeding the fiscal year in which the participant wishes to withdraw from the program.

The Council provides participating school districts the ability to purchase natural gas at reduced rates. There are currently 140 members in the Program. The participants make monthly payments based on estimated usage. Each August, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in August until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the August monthly estimated billing.

## Supplemental Information

**Ohio Schools Council**  
*Schedule of Revenues, Expenditures and Changes  
 In Fund Balance - Budget (Non-GAAP Basis) and Actual  
 General Fund  
 For the Fiscal Year Ended June 30, 2008*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Interest	\$391,755	\$391,755	\$192,783	(\$198,972)
Tuition and Fees	15,000	15,000	24,728	9,728
Charges for Services	1,062,000	1,062,000	1,634,713	572,713
Miscellaneous	205,309	205,309	198,336	(6,973)
<i>Total Revenues</i>	<u>1,674,064</u>	<u>1,674,064</u>	<u>2,050,560</u>	<u>376,496</u>
<b>Expenditures</b>				
Current:				
Operational	88,327	106,504	122,851	(16,347)
Cooperative Purchasing	166,922	180,625	177,356	3,269
Lake Erie Educational Media Consortium	45,081	46,231	44,673	1,558
Special Programs	7,600	38,846	69,039	(30,193)
Property/Fleet/Liability Insurance	114,681	115,582	94,505	21,077
Professional Development	15,068	24,333	22,118	2,215
Electrical Energy Program	367,401	565,724	534,137	31,587
Natural Gas Program	274,208	206,802	118,008	88,794
Life Insurance	2,500	2,900	1,900	1,000
<i>Total Expenditures</i>	<u>1,081,788</u>	<u>1,287,547</u>	<u>1,184,587</u>	<u>102,960</u>
<i>Net Change in Fund Balance</i>	<u>592,276</u>	<u>386,517</u>	<u>865,973</u>	<u>479,456</u>
<i>Fund Balance Beginning of Year</i>	<u>5,672,806</u>	<u>5,672,806</u>	<u>5,756,223</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>4,566</u>	<u>4,566</u>	<u>4,566</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$6,269,648</u></u>	<u><u>\$6,063,889</u></u>	<u><u>\$6,626,762</u></u>	<u><u>\$479,456</u></u>

See accompanying notes to the supplemental information

**Ohio Schools Council**  
*Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2008*

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## **Note 1 – Budgetary Basis of Accounting**

### ***A. Budgetary Process***

The Council is no longer required under State statute to file budgetary information with the State Department of Education. However, the Council's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Board's authorization to spend resources. The resolution sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the object level for all funds. The Executive Director has been authorized to allocate appropriations to the function and object level within all funds.

The Executive Director reviews the prior year's revenues and factors in the wages expected to be charged for the services offered and the grants anticipated to be received in order to determine the estimated resources for the current year. The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Council Executive Director. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts of the estimated resources approved by the Board when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts of the estimated resources that was in effect at the time the final appropriations were passed by the Board. Prior to June 30, the Board passed an appropriation resolution which matched actual expenditures during the fiscal year plus encumbrances outstanding at fiscal year end.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. Prior to June 30, the Board passed an appropriation resolution which matched most actual expenditures during the fiscal year plus encumbrances outstanding at fiscal year end.

### ***B. Budgetary Basis of Accounting***

While the Council is reporting financial position, results of operations and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

**Ohio Schools Council**  
*Notes to the Supplemental Information*  
*For the Fiscal Year Ended June 30, 2008*

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4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statements on a fund type basis for the general fund.

Net Change in Fund Balance		<u>General</u>
GAAP Basis		\$956,029
Net Adjustment for Revenue Accruals		(65,387)
Ending Unrecorded Cash		(10,510)
Net Adjustment for Expenditure Accruals		(13,861)
Adjustment for Encumbrances		<u>(298)</u>
Budget Basis		<u><u>\$865,973</u></u>

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Ohio Schools Council  
Cuyahoga County  
6133 Rockside Road, Suite 10  
Independence, Ohio 44131

To the Board of Directors

We have audited the financial statements of the governmental activities, the general fund, and the aggregate remaining fund information of the Ohio Schools Council, Cuyahoga County, Ohio, (the Council) as of and for the year ended June 30, 2008, which collectively comprise the Council's basic financial statements and have issued our report thereon dated February 6, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Council's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Council's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Council's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Council's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Council's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Ohio Schools Council  
Cuyahoga County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

**Compliance and Other Matters**

As part of reasonably assuring whether the Council's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the Board of Directors, audit committee and management. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

February 6, 2009



# Mary Taylor, CPA

Auditor of State

OHIO SCHOOLS COUNCIL

CUYAHOGA COUNTY

#### CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

A handwritten signature in cursive script that reads "Susan Babbitt".

CLERK OF THE BUREAU

CERTIFIED  
APRIL 16, 2009