

**ADMINISTRATIVE FUND OF
IOWA SCHOOL CASH ANTICIPATION PROGRAM**

FINANCIAL STATEMENTS

**YEARS ENDED
JUNE 30, 2009 AND 2008**

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statements of net assets	2
Statements of revenues, expenses, and changes in net assets	3
Statements of cash flows	4
Notes to financial statements	5-7
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	8 and 9
SCHEDULE OF FINDINGS AND RESPONSES	10 and 11

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Iowa School Cash Anticipation Program

We have audited the accompanying statements of net assets of the Administrative Fund of Iowa School Cash Anticipation Program (the Fund) as of June 30, 2009 and 2008 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 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 respective financial position of the Administrative Fund of Iowa School Cash Anticipation Program as of June 30, 2009 and 2008 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 a report dated July 14, 2010 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. 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.

The Fund has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Brooks Lodden P.C.

West Des Moines, Iowa
July 14, 2010

**ADMINISTRATIVE FUND OF
IOWA SCHOOL CASH ANTICIPATION PROGRAM**

STATEMENTS OF NET ASSETS
June 30, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	<u>\$ 1,956,974</u>	<u>\$ 1,722,425</u>
Total assets	<u><u>\$ 1,956,974</u></u>	<u><u>\$ 1,722,425</u></u>
 LIABILITIES		
Due to Iowa Association of School Boards	<u>\$ 20,024</u>	<u>\$ 24,921</u>
Deferred administrative fees	<u>60,331</u>	<u>335,389</u>
Total liabilities	<u><u>\$ 80,355</u></u>	<u><u>\$ 360,310</u></u>
 NET ASSETS		
Unrestricted	<u>\$ 1,876,619</u>	<u>\$ 1,362,115</u>
Total liabilities and net assets	<u><u>\$ 1,956,974</u></u>	<u><u>\$ 1,722,425</u></u>

See accompanying notes to financial statements.

**ADMINISTRATIVE FUND OF
IOWA SCHOOL CASH ANTICIPATION PROGRAM**

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years Ended June 30, 2009 and 2008

	2009	2008
OPERATING REVENUES		
Administrative fees	<u>\$ 514,332</u>	<u>\$ 348,877</u>
OPERATING EXPENSES		
Printing	\$ 223	\$ 46
Professional fees:		
Accounting	4,205	3,935
Legal	31,350	16,681
Rating agencies	61,242	46,596
Insurance	1,834	1,851
Hosting and registration fees	2,400	2,575
Postage	536	1,341
Telephone	134	28
Travel	372	426
Office expense	172	361
Conference sponsorship	<u>25,000</u>	<u>22,725</u>
Total operating expenses	<u>\$ 127,468</u>	<u>\$ 96,565</u>
Operating income	<u>\$ 386,864</u>	<u>\$ 252,312</u>
NON-OPERATING REVENUES		
Interest income	\$ 15,436	\$ 50,823
Gain on cost of issuance	<u>112,204</u>	<u>-</u>
Total non-operating revenues	<u>\$ 127,640</u>	<u>\$ 50,823</u>
Change in net assets	\$ 514,504	\$ 303,135
Net assets at beginning of year	<u>1,362,115</u>	<u>1,058,980</u>
Net assets at end of year	<u><u>\$ 1,876,619</u></u>	<u><u>\$ 1,362,115</u></u>

See accompanying notes to financial statements.

**ADMINISTRATIVE FUND OF
IOWA SCHOOL CASH ANTICIPATION PROGRAM**

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from administrative fees	\$ 239,273	\$ 419,440
Cash payments for operations	(37,292)	(22,835)
Cash payments for professional fees	(95,072)	(58,531)
	\$ 106,909	\$ 338,074
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	\$ 15,436	\$ 50,823
Gain on cost of issuance	112,204	-
	\$ 127,640	\$ 50,823
Net cash provided by investing activities	\$ 127,640	\$ 50,823
Increase in cash and cash equivalents	\$ 234,549	\$ 388,897
Cash and cash equivalents at beginning of year	1,722,425	1,333,528
Cash and cash equivalents at end of year	\$ 1,956,974	\$ 1,722,425
Reconciliation of operating income to net cash flows from operating activities:		
Operating income	\$ 386,864	\$ 252,312
Changes in assets and liabilities:		
(Decrease) increase in due to Iowa Association of School Boards	(4,897)	15,199
(Decrease) increase in deferred administrative fees	(275,058)	70,563
	\$ 106,909	\$ 338,074

See accompanying notes to financial statements.

**ADMINISTRATIVE FUND OF
IOWA SCHOOL CASH ANTICIPATION PROGRAM**

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies

Nature of the organization:

The Iowa School Cash Anticipation Program (the Program), a joint and cooperative undertaking under the provisions of Chapter 28E, Code of Iowa, administered by an Iowa nonprofit corporation entitled "Iowa School Cash Anticipation Program," was organized to provide a method of funding general fund deficits for school corporations participating in the Program on a voluntary basis. The Administrative Fund (the Fund) of the Program collects fees to cover expenses for the administration of the Program from anticipatory warrants issued to provide funding for the participating school districts. The Fund is related to the Iowa Association of School Boards (IASB) and its fully owned subsidiary, Local Government Services, Inc. (LGS), by virtue of common management and board of directors.

A summary of the organization's significant accounting policies follows:

Basis of presentation:

The accompanying financial statements of the Fund have been prepared on an economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed to the extent those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The fund has elected not to follow subsequent private-sector guidance.

The Fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Fund's ongoing operations. All revenues not meeting this definition are reported as non-operating revenues and expenses.

Use of estimates:

The preparation of the financial statements with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash and cash equivalents:

For the purposes of reporting cash flows, the organization considers all demand deposits and money market funds, including funds invested with the Iowa Schools Joint Investment Trust (ISJIT), to be cash and cash equivalents.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

A summary of the organization's significant accounting policies: (Continued)

Deferred administrative fees and costs:

Each year in June, a new series of anticipatory warrants is issued on behalf of the participating school districts. Historically, a portion of the proceeds was paid to the Fund in the form of administrative fees and costs for that series. The receipts were deferred and recognized as revenue in the period the costs of administering the new series were recognized. The amount of these fees and costs is negotiated prior to issuance of the warrants.

Income taxes:

The Fund is exempt from federal income taxes under Internal Revenue Code Section 115.

Note 2. Deposits and Investments

The Fund has no deposit or investment policy that addresses a specific type of risk that it is exposed to. However, the Fund participates in ISJIT which is a joint investment pool established under Chapter 28E of the state of Iowa Code that allows governmental entities to jointly invest monies. ISJIT was formed under Chapter 28E and allows school corporations along with the Fund to jointly invest funds. ISJIT funds are rated Aaa by a standard rating agency and only invests in investments allowable by the state of Iowa. Total amount of funds held by ISJIT on behalf of the Fund for the years ended June 30, 2009 and 2008 were \$1,956,974 and \$1,722,425, respectively. These amounts are reported by ISJIT on an amortized cost basis which approximates fair value of the funds.

Note 3. Loss Reserve

The loss reserve was created by the Fund to reduce future costs of issuance by strategies including reduced insurance costs. The balance designated by management for the loss reserve for the years ended June 30, 2009 and 2008 were \$1,876,619 and \$1,362,115, respectively. For the year ended June 30, 2009, \$1,850,000 was used to provide collateral on the warrants issued to the school districts.

Note 4. Related Party Transactions

IASB occasionally pays expenses on behalf of the Fund for certain operating expenses. Total amounts owed and unpaid at June 30, 2009 and 2008 were \$20,024 and \$24,921, respectively.

The Organization uses IASB in-house legal counsel for consultation. Legal expense paid to IASB for June 30, 2009 and 2008 was \$31,350 and \$16,500, respectively.

The Organization paid \$25,000 and \$22,500 to IASB for sponsoring fiscal management conferences for the years ended June 30, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 5. Accounting for Uncertain Tax Positions

In June 2006, the FASB issued Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes*. FIN 48 provides detailed guidance for the financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in an organization’s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. On December 30, 2008, the FASB issued FASB Staff Position FIN 48-3 which deferred the effective implementation date of FIN 48 to the organization’s annual financial statements ending on June 30, 2010, and the organization has elected to defer application of FIN 48.

The determination of uncertain tax positions for financial statements prior to the implementation of FIN 48 uses the tax judgments reported on the organization’s tax returns which were based on the requirements for filing tax returns under various taxing authority’s requirements for the applicable fiscal period. These filings may be subject to amendment or change during an examination by the various taxing authorities, which has not been considered in the determination of the organization’s tax assets or liabilities included in those financial statements. The technical merits of the organization’s tax positions are derived from sources of authorities in the tax law (legislation and statutes, legislative intent, regulations, rulings, and case law) and their applicability to the facts and circumstances of the tax positions.

Note 6. Subsequent Events

Subsequent to June 30, 2009, it has been determined by ISCAP and IASB that the 2009-10 fees were deferred and management anticipates payment of \$1,102,725 will be made to the appropriate vendors in July 2010.

Management has evaluated subsequent events through July 14, 2010, the date the audit report was available to be issued.

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

The Board of Directors
Iowa School Cash Anticipation Program

We have audited the financial statements of the Administrative Fund of Iowa School Cash Anticipation Program (the Fund) as of and for the year ended June 30, 2009, and have issued our report thereon dated July 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as II-A-09 and II-B-09 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. We believe the significant deficiencies described above to also be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, the Fund's administrator, and the State of Iowa and is not intended to be and should not be used by anyone other than these specified parties.

Bruce J. Janda, P.C.

West Des Moines, Iowa
July 14, 2010

IOWA SCHOOL CASH ANTICIPATION PROGRAM

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2009

Part I: Summary of the Independent Auditor’s Results

Financial Statement Section:

Type of auditor’s report issued:	<u>Unqualified Opinion</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiency(s) identified not considered to be material weaknesses?	<u> </u> Yes	<u> X </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Part II: Findings Related to the Financial Statement Audit

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

II-A-09: Segregation of Duties and Supervision and Review: Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, statement of activities, and cash flows in conformity with U.S. generally accepted accounting principles. Management is also responsible for the design and implementation of programs and controls to prevent and detect fraud affecting the organization involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. The Director of Finance had access to all accounting software and calculated and posted the majority of transactions of the organization. From July 2008 to March 2009, the CFO was reviewing and documenting his review of the activities performed by the Director of Finance. After the departure of the CFO in March 2009 through July 2009, the duties of the Director of Finance had not been reviewed by an independent individual.

Recommendation: The Board should require management to review and document current internal controls and establish a process for an ongoing review of these controls and make changes to adequately segregate the duties of the accounting staff. If the duties cannot be segregated, procedures should be established to ensure the duties are reviewed by an independent individual. This review should be performed monthly and documented on all financial accounting records noting the review took place.

Response: The Board passed a new banking resolution at their meeting on May 18, 2010 requiring the ISCAP Secretary or IASB Director of Leadership Development sign all checks and withdrawal orders. Internal controls have again been implemented ensuring financial transactions and bank reconciliations are independently reviewed by two of the following individuals: the ISCAP Secretary, IASB Director of Leadership Development, Treasurer, and such reviews are documented noting that the review actually took place.

IOWA SCHOOL CASH ANTICIPATION PROGRAM

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2009

Part II: Findings Related to the Financial Statement Audit *(Continued)*

II-B-09: Deferral of Fees: Management is responsible for adequately documenting agreements between the organization and third-party vendors regarding payment structures, fee waivers, and fee deferrals. There were claims made that fees were deferred from the 2003-04 Series and the 2009-10 Series through an oral agreement. ISCAP and IASB have found documentation that the 2003-04 fees were waived and not deferred. It has been determined by ISCAP and IASB that the 2009-10 fees were deferred and payment of \$1,102,725 will be made to the appropriate vendors in July 2010.

Recommendation: The Board should require management to review and document the deferral of fees to vendors in relation to the series issuance and establish a process of communicating these items to the Board.

Response: Management will ensure documentation is prepared related to any fee waivers or deferrals on future series. Documentation will be presented for approval by management to the ISCAP board, will be documented in the board minutes, and will include signatures for both ISCAP and the vendor.

Part III: Instances of Non-Compliance:

None

Brooks Lodden P.C.

certified public accountants

Telford A. Lodden, CPA, CFP®, CVA, Shareholder

Bruce W. Hartley, CPA, Shareholder

John E. Lamale, CPA, Shareholder

Brent L. Alexander, CPA, Shareholder

To the Board of Directors
Iowa School Cash Anticipation Program
Des Moines, Iowa

We have audited the financial statements of the Iowa School Cash Anticipation Program for the year ended June 30, 2009, and have issued our report thereon dated July 14, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted accountings standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 27, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Iowa School Cash Anticipation Program are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. During 2009, the Organization received the remaining balances from the finalization of the following series 05-06 B, 06-07 A&B, and 07-08 A&B in the amount of \$19,222 which were held by the custodian, the income from these series should have been recorded in prior periods.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

Difficulties Encountered in Performing the Audit

On September 17, 2009, the Director of Finance was terminated. On September 18, 2009 we were instructed by Kevin Schick, acting CFO, that personnel changes had taken place and that no one would be able to assist us in completing the audit. On October 27, 2009, Brooks Lodden, P.C. (BLPC) returned to the organization's office to try to complete the audit. At this time, remaining information was not ready for us to complete the audit. BLPC then pulled off of the audit. BLPC had made several requests by phone, e-mail and written correspondence regarding the status of the outstanding information. Due to the delay in providing information to us, audit procedures necessary to perform the audit were delayed, thus causing a delay in preparing and reporting the audit to the Board. Upon return of the prior Director of Finance in March 2010, information was provided and the audit procedures and report were able to be completed.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the course of our audit, we did not note any corrected or uncorrected misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 14, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Iowa School Cash Anticipation Program and is not intended to be and should not be used by anyone other than these specified parties.

Bruce Luedke, P.C.

West Des Moines, Iowa
July 14, 2010