

MID-IOWA SCHOOL IMPROVEMENT CONSORTIUM

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SCHEDULE OF FINDINGS**

JUNE 30, 2009

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Mid-Iowa School Improvement Consortium

Board of Directors

<u>Name</u>	<u>Title</u>	<u>Representing</u>	<u>Term Expires</u>
Dan Mart	President	Region 3	June 30, 2009
Hope Bossard	Vice-President	Region 1	June 30, 2009
Cass Murra	Secretary	Region 2	June 30, 2009
Karen Sandberg	Member	Region 3	June 30, 2010
Jason Ellingson	Member	Region 1	June 30, 2011
Lisa Beames	Member	Region 2	June 30, 2011
Wayne Fleishman	Member	At-Large	Indefinite

Officials

Sue Beers	Executive Director
Ethel Lee	Business Manager

Mid-Iowa School Improvement Consortium



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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Independent Auditor's Report

To the Board of Directors of
Mid-Iowa School Improvement Consortium:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of Mid-Iowa School Improvement Consortium, Carlisle, Iowa, as of and for the year ended June 30, 2009. These financial statements are the responsibility of the Consortium's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mid-Iowa School Improvement Consortium at June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated April 2, 2010 on our consideration of the Consortium'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 2, 2010

Mid-Iowa School Improvement Consortium

Financial Statements

Exhibit A

Mid-Iowa School Improvement Consortium

Statement of Net Assets

June 30, 2009

Assets	
Cash	\$ 112,631
Investments	411,575
Accrued interest receivable	5,175
Due from other governments	444
Prepaid expenses	568
Total assets	\$ 530,393
Liabilities and Net Assets	
Liabilities:	
Accounts payable	\$ 35,940
Deferred revenue	3,916
Total liabilities	39,856
Net assets - unrestricted	490,537
Total liabilities and net assets	\$ 530,393

See notes to financial statements.

Mid-Iowa School Improvement Consortium

Statement of Activities

Year ended June 30, 2009

Operating revenues:	
Membership dues	\$ 271,758
Area Education Agency 267 contract reimbursement	49,644
Miscellaneous	767
Total operating revenues	<u>322,169</u>
Operating expenses:	
Salaries and benefits	115,343
Educational consultant services	109,070
Professional fees	8,524
Curriculum manager software and programming	56,393
Communications	3,985
Supplies and materials	8,573
Travel	34,200
Dues and fees	2,164
Rent and utilities	7,898
Training	1,200
Total operating expenses	<u>347,350</u>
Operating loss	(25,181)
Non-operating revenues:	
Interest income	<u>16,239</u>
Change in net assets	(8,942)
Net assets beginning of year	<u>499,479</u>
Net assets end of year	<u><u>\$ 490,537</u></u>

See notes to financial statements.

Exhibit C

Mid-Iowa School Improvement Consortium

Statement of Cash Flows

Year ended June 30, 2009

Cash flows from operating activities:	
Cash received from members	\$ 281,351
Cash received from Area Education Agency 267 contract reimbursement	49,644
Cash received from others	767
Cash paid to employees	(122,662)
Cash paid to vendors and suppliers	(220,605)
Net cash used for operating activities	<u>(11,505)</u>
Cash flows from investing activities:	
Purchase of certificates of deposit	(561,198)
Redemption of certificates of deposit	569,949
Interest received	16,307
Net cash provided by investing activities	<u>25,058</u>
Net increase in cash and cash equivalents	13,553
Cash and cash equivalents beginning of year	<u>99,078</u>
Cash and cash equivalents end of year	<u><u>\$ 112,631</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	<u>\$ (25,181)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:	
Increase in accounts payable	2,640
Decrease in due from other governments	5,969
Decrease in prepaid expenses	1,443
Increase in deferred revenue	3,624
Total adjustments	<u>13,676</u>
Net cash used for operating activities	<u><u>\$ (11,505)</u></u>

See notes to financial statements.

Mid-Iowa School Improvement Consortium

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

A. Reporting Entity

Mid-Iowa School Improvement Consortium (Consortium) consists of one hundred nineteen community school districts concerned with implementing and designing effective assessments to ensure improved student achievement. The Consortium is administered by a Board of Directors consisting of representatives from the member school districts. On July 1, 2004, the Consortium incorporated under the Iowa Non-Profit Corporation Act, Chapter 504A of the Code of Iowa.

The Consortium is exempt from tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides tax exemption for corporations organized and operated exclusively for charitable, religious or educational purposes.

The administrative offices of the Consortium have been located at the Carlisle Community School District (District), Carlisle, Iowa since formation. The District also provides financial management services to the Consortium.

B. Fund Accounting

The Consortium accounts for all resources over which it has discretionary control to use in carrying out the operations of the organization in accordance with the limitations of its charter and bylaws.

C. Basis of Accounting

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

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

D. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Consortium and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets not subject to member-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

E. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents – The Consortium considers all short-term cash investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2009 include certificates of deposit of \$411,575.

Due from Other Governments – This represents membership dues due from member school districts.

(2) Cash and Investments

The Consortium's deposits at June 30, 2009 were covered by federal depository insurance at the maximum amount allowed.

The Consortium's investment policy authorizes the business manager to invest funds in excess of current needs in interest bearing savings, money market and checking accounts and certificates of deposit or other evidences of deposit at federally insured Iowa depository institutions approved by the Consortium.

(3) Deferred Revenue

Deferred revenue of \$3,916 consists of membership dues for the year ending June 30, 2010 received prior to June 30, 2009.

(4) Pension and Retirement System

The Consortium, through an administrative operations arrangement with Carlisle Community School District, contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary and the Consortium via the District is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Contribution requirements are established by state statute. The Consortium's contributions to IPERS through the Carlisle Community School District for the years ended June 30, 2009, 2008 and 2007 were \$4,470, \$4,778 and \$4,214, respectively, equal to the required contributions for each year.

(5) Risk Management

The Consortium 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. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years. The Consortium assumes liability for any deductibles and claims in excess of coverage limitations.

(6) Operating Lease

The Consortium entered into an operating lease agreement for a copy machine on October 10, 2008. The Consortium expects the lease will be replaced by another lease at the end of the lease. The future minimum lease payments for the lease are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2010	\$ 1,986
2011	1,986
2012	1,986
2013	1,986
2014	662
Total	<u>\$ 8,606</u>

Rental expense for the year ended June 30, 2009 totaled \$1,324.

(7) Related Party Transactions

On April 15, 2009, the Consortium Board President Dan Mart signed a service agreement with Systems Management Innovations, LLC (SMI) for services related to the Consortium's Curriculum Manager software. According to the service agreement, as consideration for the services performed, SMI is to be provided a set-up fee of \$400 for each new district and a management fee of \$600 per licensed district per year. Although not mentioned in the service agreement, SMI was paid a total of \$3,000 during the fiscal year ended June 30, 2009 and an additional \$4,000 in August 2009.

Fifty-nine school districts have signed up for Curriculum Manager. The Consortium estimates \$50,200 will be paid to SMI during the fiscal year ending June 30, 2010.

Mid-Iowa School Improvement Consortium

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

Mid-Iowa School Improvement Consortium



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

To the Board of Directors of
Mid-Iowa School Improvement Consortium:

We have audited the accompanying financial statements of Mid-Iowa School Improvement Consortium, Carlisle, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the Consortium's financial statements listed in the table of contents, and have issued our report thereon dated April 2, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Mid-Iowa School Improvement Consortium'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 our opinion on the effectiveness of Mid-Iowa School Improvement Consortium's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mid-Iowa School Improvement Consortium's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in 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 the 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 Mid-Iowa School Improvement Consortium's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Mid-Iowa School Improvement Consortium's financial statements that is more than inconsequential will not be prevented or detected by Mid-Iowa School Improvement Consortium's internal control.

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

Our consideration of the 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 the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mid-Iowa School Improvement Consortium's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters required to be reported under Government Auditing Standards.

Mid-Iowa School Improvement Consortium's response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Consortium's response, we did not audit Mid-Iowa School Improvement Consortium's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the members and customers of Mid-Iowa School Improvement Consortium and other parties to whom the Consortium may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Mid-Iowa School Improvement Consortium during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 2, 2010

Mid-Iowa School Improvement Consortium

Schedule of Findings

Year ended June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Related Party Transaction – At the April 8, 2009 Board meeting, agenda item 8 included discussion of “Curriculum Manager Purchase”, including two contracts with Eclipse and Earth IT in regard to the Curriculum Manager purchase. In addition, the minutes included Board discussion pertaining to proposed technical assistance services with Systems Management Innovations, LLC, (SMI), a company owned and operated by Paul Beers, son of Sue Beers, Executive Director of Mid-Iowa School Improvement Consortium (MISIC).

The April 8, 2009 minutes stated, in part, “Motion by Lisa Beames to give Dan Mart and/or Sue Beers the authority to sign the contracts to proceed with the purchase.” The Board’s action appears to pertain only to the “purchase” contracts with Eclipse and Earth IT. Although the Board minutes reflected discussion and consideration of the service agreement with SMI, the Board did not specifically act to approve or authorize the service agreement with SMI. However, a service agreement with SMI was entered into on April 15, 2009 and signed by Paul Beers on behalf of SMI and Dan Mart on behalf of MISIC. MISIC did not obtain competitive bids or quotations prior to entering into the agreement with SMI.

According to the April 8, 2009 minutes, the total cost for transition services was \$7,000 and, once Curriculum Manager is set up, the on-going support cost would be \$600 per client per year. According to the SMI service agreement, “MISIC shall pay SMI a management fee of \$600 per licensed district per year and a set-up fee of \$400 for any new districts.” The SMI service agreement also provides for expense reimbursements for “reasonable and proper business expenses incurred to perform work for MISIC, subject to MISIC’s established expense reimbursement policies.”

The Board discussion did not include the \$400 set-up fee for any new districts or the expense reimbursements. It is unclear whether SMI is required to obtain approval from MISIC prior to incurring the “reasonable and proper business expenses”.

Recommendation – We are unable to determine the propriety of the SMI service agreement since it includes conflicting provisions, was not specifically approved by the Board and the related party relationship between the owner of SMI and MISIC’s Executive Director.

MISIC should consult legal counsel to determine the disposition of this finding, including the potential conflict of interest and the validity of the SMI service agreement since it includes conflicting provisions and was not approved by the Board.

Response – In all matters relating to entering into a contract with SMI, the Board was fully aware of the relationship between the owner of SMI, Paul Beers and the MISIC Executive Director, Sue Beers. Paul was present at the meeting and was introduced to all Board members at the meeting as Sue’s son. Also, Sue had consulted with Paul about general technical issues regarding the proposed

purchase prior to the Board's decision to purchase and Paul had spent several days researching the program and providing input. He did this work without any compensation. Once the Board had determined that they would move forward with the purchase of the software, Paul was a logical choice for management of it, since he had in-depth knowledge of the program and since he was trained and employed in doing exactly the same kind of work in this current employment. No one knew how many districts would eventually sign on to use the software, so the compensation could vary greatly. This would have made it virtually impossible to bid.

In its April 26, 2010 meeting, the MISIC Board re-affirmed its adherence to the Conflict of Interest Policy and its prior knowledge of the relationship between SMI and the Executive Director.

Any oversights with motions regarding the contract have been addressed at the April 26, 2010 Board meeting. SMI's contracts were completely consistent with the business plan that was used by the Board in their decision to purchase the software. The issue was in an incorrect motion rather than in the practice. The Board re-approved the contract with SMI as written to re-affirm that the contract was correct and did follow the intent of the Board.

Conclusion – Response accepted.

- (B) Disbursement Documentation – Two credit card charges totaling \$92 were paid without detailed supporting documentation to support the charges. The Consortium's adopted credit card policy states "employees and officers using a MISIC credit card must submit a detailed receipt in addition to a credit card receipt indicating the date, purpose, and nature of the expense for each claim item."

Recommendation – All expenses should be supported with appropriate detailed supporting documentation prior to disbursement.

Response – This has been addressed at a Board meeting last fall. Proper documentation has been submitted better since then.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Mid-Iowa School Improvement Consortium

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
James R. Wittenwyler, Staff Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State