

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

**FINANCIAL STATEMENTS**

**YEARS ENDED  
JUNE 30, 2012 AND 2011**

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Iowa School Cash Anticipation Program  
Des Moines, Iowa

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, 2012 and 2011 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, 2012 and 2011 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 December 6, 2012 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.



West Des Moines, Iowa  
December 6, 2012

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

**STATEMENTS OF NET ASSETS**  
June 30, 2012 and 2011

<b>ASSETS</b>	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 988,373	\$ 825,074
Accounts receivable	-	709
Total assets	<u>\$ 988,373</u>	<u>\$ 825,783</u>
 <b>LIABILITIES</b>		
Due to Iowa Association of School Boards	<u>\$ 5,555</u>	<u>\$ 30,471</u>
Total liabilities	<u>\$ 5,555</u>	<u>\$ 30,471</u>
 <b>NET ASSETS</b>		
Unrestricted	<u>\$ 982,818</u>	<u>\$ 795,312</u>
Total liabilities and net assets	<u>\$ 988,373</u>	<u>\$ 825,783</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, 2012 and 2011

	2012	2011
<b>OPERATING REVENUES</b>		
Administrative fees	\$ 12,500	\$ 44,020
<b>OPERATING EXPENSES</b>		
Professional fees:		
Accounting	\$ 8,537	\$ 6,377
Legal	12,885	23,992
Insurance	1,891	1,710
Printing	60	-
Postage	339	-
Telephone	172	-
Travel	233	115
Office expense	101	290
Miscellaneous	413	146
	\$ 24,631	\$ 32,630
Total operating expenses		
Operating (loss) income	\$ (12,131)	\$ 11,390
<b>NON-OPERATING REVENUES</b>		
Interest income	\$ 172	\$ 933
(Loss) gain on cost of issuance	(10)	4,951
Other income	199,475	-
	\$ 199,637	\$ 5,884
Total non-operating revenues		
Change in net assets	\$ 187,506	\$ 17,274
Net assets at beginning of year	795,312	778,038
Net assets at end of year	\$ 982,818	\$ 795,312

*See accompanying notes to financial statements.*

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

**STATEMENTS OF CASH FLOWS**  
Years Ended June 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from administrative fees	\$ 12,500	\$ 44,020
Cash payments for operations	(2,976)	(2,261)
Cash payments for professional fees	(46,571)	(1,106,325)
Net cash (used in) operating activities	\$ (37,047)	\$ (1,064,566)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments	\$ 172	\$ 933
Gain on cost of issuance	699	4,252
Cash received from settlement	199,475	-
Net cash provided by investing activities	\$ 200,346	\$ 5,185
Increase (decrease) in cash and cash equivalents	\$ 163,299	\$ (1,059,381)
Cash and cash equivalents at beginning of year	825,074	1,884,455
Cash and cash equivalents at end of year	\$ 988,373	\$ 825,074
Reconciliation of operating income to net cash flows from operating activities:		
Operating (loss) income	\$ (12,131)	\$ 11,390
Changes in assets and liabilities:		
(Decrease) in due to Iowa Association of School Boards	(24,916)	(394,507)
(Decrease) in due to Local Government Services	-	(203,412)
(Decrease) in accounts payable	-	(478,037)
Net cash (used in) operating activities	\$ (37,047)	\$ (1,064,566)

*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 certain overlapping 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. There were no deferred administrative fees or costs for the years ended June 30, 2012 and 2011, respectively.

##### **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 AA+ 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, 2012 and 2011 were \$988,373 and \$825,074, 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 balances designated by management for the loss reserve for the years ended June 30, 2012 and 2011 were \$781,718 and \$781,570, respectively. For the years ended June 30, 2012 and 2011, \$750,000 was used to provide collateral on the warrants issued to the school districts. There were no deferred fees or additional payments to vendors made for the years ended June 30, 2012 and 2011.

## NOTES TO FINANCIAL STATEMENTS

### **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, 2012 and 2011 were \$5,555 and \$30,471, respectively.

### **Note 5. Other Income**

During the year ended June 30, 2012, ISCAP received \$199,475 from the Securities and Exchange Commission vs. GE Funding Capital Markets Services, Inc. settlement. ISCAP intends to use the funds for administrative costs of ISCAP. The amount is included in other income on the statement of revenues, expenses, and changes in net assets.

### **Note 6. Subsequent Events**

Management has evaluated subsequent events through December 6, 2012, 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  
Des Moines, Iowa

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, 2012, and have issued our report thereon dated December 6, 2012. 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**

Management of the Fund is responsible for establishing and maintaining effective 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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we have identified a deficiency in internal control over financial reporting that we consider to be a material weakness as well as a significant deficiency.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as II-A-12 to be a significant deficiency as well as a material weakness.

## 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*.

The Fund's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Fund's response and, accordingly, we express no opinion on it.

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.

*Brooks Ludden, P.C.*

West Des Moines, Iowa  
December 6, 2012

IOWA SCHOOL CASH ANTICIPATION PROGRAM

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2012

**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 *Government Auditing Standards*.

**II-A-12: Financial Accounting and Reporting:** An organization’s internal control over financial reporting contemplates that management and accounting staff have the skills and competencies to prevent, detect, and correct misstatements in financial statements, including applicable disclosures, prepared in accordance with United States Generally Accepted Accounting Principles (GAAP). During the audit, adjusting and reclassifying entries were needed in order for the financial statements to properly reflect the activity of the Fund and be in conformity with GAAP. The accounting staff and management’s lack of expertise and familiarity with GAAP, including disclosures, is considered a material weakness in the Fund’s controls over financial reporting. An auditor can prepare the organization’s financial statements and related disclosures, but cannot be considered part of the internal control in place to ensure the statements are presented in accordance with GAAP, including disclosures.

**Recommendation:** Management of the organization needs to review the responsibilities and skill sets of the individuals within the accounting department to ensure the organization has the appropriate staff to perform the activities needed by the organization in order to prepare accurate financial information for the Board.

**Response:** Management will be presenting a re-structuring plan of the accounting staff to the Audit and Finance Committee that will include on-going monitoring, assistance, and coaching of staff to ensure that compliance with GAAP is at the necessary performance level.

**IOWA SCHOOL CASH ANTICIPATION PROGRAM**

**SCHEDULE OF FINDINGS AND RESPONSES**

For the Year Ended June 30, 2012

**Part III: Instances of Non-Compliance:**

None.

## IOWA SCHOOL CASH ANTICIPATION PROGRAM

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2011

**II-A-11: 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 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 Accounting Manager had access to all accounting software and calculated and posted the majority of transactions of the organization. During the year ended June 30, 2011, until the end of October 2011, the duties performed (i.e., accounts reconciliations, journal entries, and subsidiary ledgers) by the accounting personnel 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.

**Current Status:** No similar findings found during the current year.

**II-B-11: Financial Accounting and Reporting:** An organization's internal control over financial reporting contemplates that management and accounting staff have the skills and competencies to prevent, detect, and correct misstatements in financial statements, including applicable disclosures, prepared in accordance with United States Generally Accepted Accounting Principles (GAAP). During the audit, adjusting and reclassifying entries were needed in order for the financial statements to properly reflect the activity of the organization and be in conformity with GAAP. The accounting staff and management's lack of expertise and familiarity with GAAP, including disclosures, is considered a material weakness in the organization's controls over financial reporting. An auditor can prepare the organization's financial statements and related disclosures, but cannot be considered part of the internal control in place to ensure the statements are presented in accordance with GAAP, including disclosures.

**Recommendation:** Management of the organization needs to review the responsibilities and skill sets of the individuals within the accounting department to ensure the organization has the appropriate staff to perform the activities needed by the organization in order to prepare accurate financial information for the Board.

**Current Status:** Similar finding for the year ended June 30, 2012.

# 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  
James R. Pistillo, CPA, Shareholder

To the Management and the Governing Board  
of the Iowa Schools Cash Anticipation Program  
Des Moines, Iowa

In planning and performing our audit of the financial statements of the Iowa Schools Cash Anticipation Program for the year ended June 30, 2012, we considered the organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls. We previously reported on the organization's internal control in our report dated December 6, 2012. This letter does not affect our report dated December 6, 2012 on the financial statements of the organization.

We have already discussed this comment and suggestion with various organization personnel, and we will be pleased to discuss these comments in further detail at your convenience. Our comments are summarized as follows:

### Accounts Payable

The organization currently does not have a checking account to issue checks; therefore Iowa Association of School Boards (IASB) pays the bills of the organization resulting in a payable to IASB and also for the potential of ISCAP bills to not be allocated to the proper entity. We recommend the organization establish a checking account of its own in order to pay its expenses and reduce the payable amounts to IASB.

### 1099s

As noted above, the organization does not issue their own checks and therefore amounts paid on behalf of ISCAP for legal expenses do not show up in a check register for the organization. The result of this is 1099s were not issued to legal counsel which performed legal services for ISCAP during the year ended June 30, 2012 by ISCAP. However, IASB issued a 1099 to legal counsel for legal services paid by IASB, which included amounts incurred on behalf of ISCAP. We recommend the organization establish a checking account of its own in order to pay its expenses and to establish procedures to ensure that 1099s are issued to the appropriate vendors.

This report is intended solely for the information and use of the Governing Board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Brooks Lodden, P.C.*

West Des Moines, Iowa  
December 6, 2012

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 (ISCAP) for the year ended June 30, 2012, and have issued our report thereon dated December 6, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing 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 12, 2012. 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 ISCAP 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 the year ended June 30, 2012. We noted no transactions entered into by ISCAP during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following adjustments were made to the trial balance: to record revenue from GE litigation settlement, to agree accounts payable to IASB receivable and to record the insurance allocation to ISCAP.

#### *Disagreements with Management*

For purposes of this letter, 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. We are pleased to report that no such disagreements arose during the course of our audit.

**Significant Audit Findings (Continued)**

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 6, 2012.

*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 ISCAP'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 ISCAP's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Other Matters**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

*Brooks Ladin, P.C.*