**OFFICE OF AUDITOR OF STATE**

STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

Contact: Andy Nielsen
515/281-5834

FOR RELEASE June 30, 2011

Auditor of State David A. Vaudt today released an audit report on Mid-Iowa School Improvement Consortium, Carlisle, Iowa for the year ended June 30, 2010.

Mid-Iowa School Improvement Consortium (Consortium) was organized in 2004 as a non-profit corporation for charitable, educational, religious or scientific purposes. The Consortium is a consortium of one hundred thirty community school districts concerned with implementing and designing effective assessments to ensure improved student achievement.

Vaudt reported Mid-Iowa School Improvement Consortium had total revenues of $459,051 for the year ended June 30, 2010, a 36% increase over the prior year. The revenues included $326,895 from membership dues, a 20% increase over the prior year, and $111,600 from Curriculum Manager software system fees, a 100% increase over the prior year.

Expenses totaled $379,813 for the year ended June 30, 2010, a 9% increase over the prior year, and included $239,650 for educational consultant services, $60,337 for Curriculum Manager programming and management services and $31,541 for travel. The increase in expenses was primarily a result of amortization on the Curriculum Manager software.

A copy of the audit report is available for review in the Office of Auditor of State and on the Auditor of State's web site at http://auditor.iowa.gov/reports/1033-0007-B000.pdf.

# # #

**MID-IOWA SCHOOL IMPROVEMENT CONSORTIUM**

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

**JUNE 30, 2010**

Table of Contents

## Mid-Iowa School Improvement Consortium

### Board of Directors

| Name | Title | Representing | Term Expires |
|---|---|---|---|
| Jason Ellingson | President | Region 1 | June 30, 2011 |
| Karen Sandberg | Vice-President | Region 3 | June 30, 2010 |
| Jared Cecil | Secretary | Region 3 | June 30, 2012 |
| Lisa Beames | Member | Region 2 | June 30, 2011 |
| Tina Ross | Member | Region 1 | June 30, 2012 |
| Cheryl Werner | Member | Region 2 | June 30, 2012 |
| Wayne Fleishman | Member | At-Large | Indefinite |

### Officials

| | |
|---|---|
| Sue Z. Beers | Executive Director |
| Ethel Lee | Business Manager |

**Mid-Iowa School Improvement Consortium**

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David A. Vaudt, CPA
Auditor of State

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, 2010. 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, 2010, 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 June 21, 2011 on our consideration of Mid-Iowa School Improvement 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

DAVID A. VAUDT, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 21, 2011

**Mid-Iowa School Improvement Consortium**

**Financial Statements**

Mid-Iowa School Improvement Consortium

Statement of Net Assets

June 30, 2010

| | |
|---|---|
| **Assets** | |
| Cash | $ 114,775 |
| Investments | 451,835 |
| Accrued interest | 4,949 |
| Due from other governments | 204 |
| Prepaid expenses | 3,348 |
| Capital assets, net of accumulated amortization of $18,345 | 73,381 |
| **Total assets** | $ 648,492 |
| **Liabilities and Net Assets** | |
| Liabilities: | |
| Accounts payable | $ 14,901 |
| Deferred revenue | 16,798 |
| Total liabilities | 31,699 |
| Net assets - unrestricted | 616,793 |
| **Total liabilities and net assets** | $ 648,492 |

See notes to financial statements.

Mid-Iowa School Improvement Consortium

Statement of Activities

Year ended June 30, 2010

| | |
|---|---|
| Operating revenues: | |
| Membership dues | $ 326,895 |
| Curriculum Manager software system fees | 111,600 |
| Reimbursements | 9,406 |
| Miscellaneous | 2,933 |
| Total operating revenues | 450,834 |
| Operating expenses: | |
| Educational consultant services | 239,650 |
| Professional fees | 5,100 |
| Curriculum Manager programming and management services | 60,337 |
| Communications | 6,897 |
| Supplies and materials | 6,395 |
| Travel | 31,541 |
| Dues and fees | 2,930 |
| Rent and utilities | 8,063 |
| Training | 555 |
| Amortization | 18,345 |
| Total operating expenses | 379,813 |
| Operating income | 71,021 |
| Non-operating revenues: | |
| Interest income | 8,217 |
| Change in net assets | 79,238 |
| Net assets beginning of year, as restated | 537,555 |
| Net assets end of year | $ 616,793 |

See notes to financial statements.

Mid-Iowa School Improvement Consortium

Statement of Cash Flows

Year ended June 30, 2010

| | |
|---|---|
| Cash flows from operating activities: | |
| Cash received from members | $ 451,617 |
| Cash received from reimbursements | 9,406 |
| Cash received from others | 2,933 |
| Cash paid to independent contractors, vendors and suppliers | (385,287) |
| Net cash provided by operating activities | 78,669 |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | (44,708) |
| Cash flows from investing activities: | |
| Purchase of certificates of deposit | (451,835) |
| Redemption of certificates of deposit | 411,575 |
| Interest received | 8,443 |
| Net cash used by investing activities | (31,817) |
| Net increase in cash and cash equivalents | 2,144 |
| Cash and cash equivalents beginning of year | 112,631 |
| Cash and cash equivalents end of year | $ 114,775 |
| **Reconciliation of operating income to net cash provided by operating activities:** | |
| Operating income | $ 71,021 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Amortization | 18,345 |
| Decrease in due from other governments | 240 |
| (Increase) in prepaid expenses | (2,780) |
| (Decrease) in accounts payable | (21,039) |
| Increase in deferred revenue | 12,882 |
| Net cash provided by operating activities | $ 78,669 |

See notes to financial statements.

## (1) Summary of Significant Accounting Policies

### A. Reporting Entity

Mid-Iowa School Improvement Consortium (Consortium) consists of one hundred thirty 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 income 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.

### 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 donor-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, 2010 include certificates of deposit of $451,835.

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

## (2) Cash and Investments

The Consortium's deposits at June 30, 2010 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 $16,798 consists of membership dues and Curriculum Manager software system fees for the year ending June 30, 2011 received prior to June 30, 2010.

## (4) 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.

## (5) Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

| | | Balance Beginning of Year as restated | Increases | Decreases | Balance End of Year |
|---|---|---|---|---|---|
| Intangible assets | $ | 47,018 | 44,708 | - | 91,726 |
| Less accumulated amortization | | - | 18,345 | - | 18,345 |
| Capital assets, net | $ | 47,018 | 26,363 | - | 73,381 |

## (5) 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:

| Year ending June 30, | | Amount |
|---|---|---|
| 2011 | $ | 1,986 |
| 2012 | | 1,986 |
| 2013 | | 1,986 |
| 2014 | | 662 |
| Total | $ | 6,620 |

Rental expense for the year ended June 30, 2010 totaled $1,986.

## (7) Related Party Transactions

On April 15, 2009, Consortium Board President Dan Mart signed a service agreement with Systems Management Innovations, LLC (SMI), owned and operated by the son of the Executive Director of the Consortium, 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. For the year ended June 30, 2010, SMI was paid $60,119 for management fees and other programming and expense reimbursements.

Seventy-four school districts have signed up for Curriculum Manager. The Consortium estimates $74,000 will be paid to SMI during the year ending June 30, 2011.

## (8) Restatement

Financial Accounting Standards Board Statement No. 142, Goodwill and Other Intangible Assets, requires a non-profit entity to report and amortize intangible assets upon their acquisition. In May 2009, the Consortium began purchasing and developing a software system for use by member school districts. The Consortium has restated the financial statements to capitalize software system costs, as of July 1, 2009, as follows:

| | | Net Assets | Capital Assets |
|---|---|---|---|
| Balances June 30, 2009, as previously reported | $ | 490,537 | - |
| Intangible assets capitalized | | 47,018 | 47,018 |
| Balances July 1, 2009, as restated | $ | 537,555 | $ 47,018 |

**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 <u>Government Auditing Standards</u>**

**Mid-Iowa School Improvement Consortium**

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David A. Vaudt, CPA
Auditor of State

## 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, 2010, which collectively comprise the Consortium's financial statements listed in the table of contents, and have issued our report thereon dated June 21, 2011. 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 and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and another deficiency we consider to be a significant deficiency.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Mid-Iowa School Improvement Consortium's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

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. We consider the deficiency described in the accompanying Schedule of Findings as item (C) to be a significant deficiency.

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 responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Consortium's responses, we did not audit Mid-Iowa School Improvement Consortium's responses and, accordingly, we express no opinion on them.

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

June 21, 2011

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Related Party Transaction – On April 15, 2009, 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. The company is owned and operated by Paul Beers, son of Sue Beers, Executive Director of Mid-Iowa School Improvement Consortium (MISIC). The Consortium did not obtain competitive bids or quotations prior to entering into the agreement with SMI.

According to the SMI service agreement, "MISIC (Mid-Iowa School Improvement Consortium) 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." However, Board discussion and approval on April 8, 2009 did not include the $400 set-up fee for any new districts or the expense reimbursements.

At the April 26, 2010 Board meeting, a motion was made and passed for Board approval to reapprove the contract with SMI, including payment of $400 of the initial $1,000 set-up fee per district and $600 of the annual license fee of $1,200 per district for project management. Minutes for this meeting, however, did not document Board discussion of expense reimbursements.

For the year ended June 30, 2010, SMI was paid $60,119 for management fees and other programming and expense reimbursements.

Recommendation – We are unable to determine the propriety of the SMI service agreement payments since expense reimbursements that have not been provided for in the contract provisions approved by the Consortium's Board are being made.

The Consortium should consult legal counsel to address this finding.

Response – This was brought to the Board's attention at the meeting on May 20, 2011.

Conclusion – Response acknowledged. The Consortium should consult legal counsel, as recommended.

(B) Financial Reporting – Intangible assets were not properly capitalized and amortized in the Consortium's financial statements for the two years ended June 30, 2010. Adjustments were subsequently made by the Consortium to properly include these amounts in the financial statements.

Recommendation – The Consortium should implement procedures to ensure all capital assets are identified and included in the financial statements.

Response – The Business Manager will include intangible assets on the financial statements for next year.

Conclusion – Response accepted.

(C) Disbursement Documentation – One credit card charge totaling $73 was paid without detailed documentation to support the charges. The Consortium's adopted credit card policy states "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 payment.

Response – Receiving detailed support for credit card charges has gotten better than in the past. The Business Manager will continue to emphasize detailed supporting documentation is required.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Mid-Iowa School Improvement Consortium

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Tiffany M. Ainger, Staff Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State