

STATE APPEAL BOARD OF IOWA
(A Component Unit of the State of Iowa)

Financial Statements – Modified Cash Basis

June 30, 2004

(With Independent Auditors' Report Thereon)

STATE APPEAL BOARD OF IOWA
(A Component Unit of the State of Iowa)

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KPMG LLP
2500 Ruan Center
666 Grand Avenue
Des Moines, IA 50309

Independent Auditors' Report

Members of the State Appeal Board of Iowa:

We have audited the accompanying financial statements – modified cash basis of the State Appeal Board of Iowa (a component unit of the State of Iowa) as of and for the year ended June 30, 2004, as listed in the accompanying table of contents. These financial statements are the responsibility of management of the State Appeal Board of Iowa (a component unit of the State of Iowa). Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, 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 that our audit provides a reasonable basis for our opinion.

As discussed in note 1, these financial statements were prepared on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Iowa, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As discussed in note 1, the financial statements of the State Appeal Board of Iowa (a component unit of the State of Iowa) are intended to present the assets and liabilities arising from modified cash basis transactions and modified cash receipts and disbursements of only that portion of the general fund of the State of Iowa that is attributable to the transactions of the State Appeal Board of Iowa (a component unit of the State of Iowa).

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from modified cash basis transactions of the State Appeal Board of Iowa (a component unit of the State of Iowa) as of June 30, 2004, and its cash receipts and disbursements for the years then ended, on the basis of accounting described in note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 14, 2004 on our consideration of the State Appeal Board of Iowa's (a component unit of the State of Iowa) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

The State Appeal Board of Iowa has not presented Management's Discussion and Analysis the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

KPMG LLP

October 14, 2004

STATE APPEAL BOARD OF IOWA
(A Component Unit of the State of Iowa)

Statement of Assets and Liabilities – Modified Cash Basis

June 30, 2004

Assets	\$	—
		<u> </u>
Liabilities	\$	—
Equity		—
Contingencies (note 3)		<u> </u>
Total liabilities and equity	\$	<u> </u>

See accompanying notes to financial statements – modified cash basis.

STATE APPEAL BOARD OF IOWA
(A Component Unit of the State of Iowa)

Statement of Cash Receipts and Disbursements –
Modified Cash Basis

Year ended June 30, 2004

Receipts – standing unlimited appropriation	\$ 24,242,566
Disbursements – claims paid	<u>24,242,566</u>
Cash balance at beginning and end of year	<u><u>\$ —</u></u>

See accompanying notes to financial statements – modified cash basis.

STATE APPEAL BOARD OF IOWA
(A Component Unit of the State of Iowa)

Notes to Financial Statements – Modified Cash Basis

June 30, 2004

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) Reporting Entity

The State Appeal Board of Iowa (the Appeal Board) consists of the Auditor of State, the Treasurer of State, and the Director of the Department of Management. The Appeal Board's actions are governed by various chapters of the State Code of Iowa (the Code). Chapters 25 and 669 of the Code require the Appeal Board to determine the disposition of general and tort claims against the State of Iowa (the State) or its employees, based on recommendations of the State Attorney General's office. An annual report of claims and judgments paid and claims denied is made to the General Assembly.

The Appeal Board is considered an integral part of the State reporting unit. The accompanying financial statements present only that portion of the general fund of the State that is attributable to the transactions of the Appeal Board.

(b) Summary of Significant Accounting Policies

Basis of Presentation – Fund Accounting

The accounts of the Appeal Board are organized on the basis of a fund. The operations of the fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balance, receipts, and disbursements. The fund of the Appeal Board is as follows:

- *Governmental Fund Type* – This is the fund type through which most governmental functions typically are financed. Expendable assets are assigned to the Governmental Fund according to the purpose for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between Governmental Fund assets and liabilities, the fund equity, is referred to as “fund balance.” The measurement focus is on receipts and disbursements, rather than on net income determination.
 - *General Fund* – The General Fund comprises the Appeal Board's Governmental Fund Type. This fund is the general operating fund of the Appeal Board. All State legislative appropriations and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund.

Basis of Accounting and Appropriation

The Appeal Board uses a modified cash receipts and disbursements basis of accounting. Appeal Board appropriation revenues are received on the basis of a standing unlimited appropriation from the State Legislature. Such an appropriation provides revenues for the payment of all expenditures approved by the Appeal Board. Therefore, appropriation revenues and expenditures are recorded when cash disbursements are made. Accordingly, the accompanying financial statements do not purport to present the information therein in accordance with accounting principles generally accepted in the United States of America, which requires the use of the accrual or modified accrual basis of accounting.

STATE APPEAL BOARD OF IOWA
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Notes to Financial Statements – Modified Cash Basis

June 30, 2004

(2) Officials

The following is a summary of officials as of June 30, 2004:

Name	Title
Appeal Board Members:	
Michael L. Fitzgerald	Chairperson, Treasurer of State
David A. Vaudt	Vice Chairperson, Auditor of State
Cynthia P. Eisenhauer	Member, Director of the Department of Management
Administrative Assistant/Executive Secretary:	
Judy K. Meyer	

(3) Contingencies

The Appeal Board has the authority to approve, dismiss, or deny general claims less than ten years old and tort claims not over \$5,000. Tort claims settled or allowed in excess of \$5,000 must have the unanimous approval of all the members of the Appeal Board, the State Attorney General, and the District Court of the State of Iowa for Polk County. Further, all tort claims, whatever the amount, must be filed through the Appeal Board. As of June 30, 2004, there were the following tort claims and general claims pending before the Appeal Board (unaudited):

Tort claims:	
Contingent highway tort claims	\$ 23,774,743
Contingent highway tort lawsuits	24,874,095
Contingent tort claims of the State General Fund (1)	1,956,655,691
General claims:	
Contingent highway general claims	31,819
Contingent general claims of various State departments	864,549
Total	<u>\$ 2,006,200,897</u>

- (1) This balance represents the total claim amount of all pending tort and other statutory or constitutional claims and cases against the State, which in the aggregate could result in an estimated potential liability of between \$15,000,000 and \$25,000,000. Further, the State has approximately \$5,000,000 in established potential liability for suits in which the State has been dismissed as a party defendant, but the suit is either on appeal or the time for taking of an appeal has not yet expired.

In addition to the claims noted above, employee wage claims under the Fair Labor Standards Act arising from the Department of Public Safety is anticipated to impact the General Fund of the State and the State's Primary Road Fund. A decision was issued by the Iowa Supreme Court in October 2004, thereby ending litigation. The parties are in the process of calculating back pay and attorneys' fees. The total liability is approximately \$8,000,000.

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The United States of America has demanded the State repay between \$11,000,000 and \$12,000,000 in payments to the United States of America made to the State under a cooperative agreement for developing new and innovative ways of providing training. The State believes it has meritorious defenses to some of the claims for repayment and it will be able to settle this dispute in an amount less than the amount demanded. Payment of any amounts owed will likely be made from the State Appeal Board's appropriation as a general claim or claims.

In addition to the above claims and lawsuits, there are also claims and lawsuits against the State for which no dollar amount has been specified.



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Independent Auditors' 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*

Members of the State Appeal Board of Iowa:

We have audited the financial statements – modified cash basis of the State Appeal Board of Iowa (a component unit of the State of Iowa) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, 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 State Appeal Board of Iowa's (a component unit of the State of Iowa) internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Appeal Board of Iowa's (a component unit of the State of Iowa) financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters, 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 State Appeal Board of Iowa (a component unit of the State of Iowa) and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 14, 2004