

State Appeal Board of Iowa

Financial Report
June 30, 2012

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Independent Auditor's Report

Members of the State Appeal Board of Iowa
Des Moines, Iowa

We have audited the accompanying financial statements – modified cash basis of the State Appeal Board of Iowa, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the State Appeal Board of Iowa's management. 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 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 described 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 described in Note 1, the financial statements of the State Appeal Board of Iowa are intended to present the assets and liabilities arising from the 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. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2012 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Because the financial statements present only the State Appeal Board of Iowa, and do not purport to, and do not present the financial statements of the General Fund of the State of Iowa, management has chosen not to present a management's discussion and analysis for the State Appeal Board of Iowa.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from the modified cash basis transactions of the State Appeal Board of Iowa as of June 30, 2012, and its modified cash receipts and disbursements for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2013, on our consideration of the State Appeal Board of Iowa'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.

Our audit was conducted for the purposes of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has not been subjected to the auditing procedures applied in the audits of the financial statements. Accordingly, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

McGladrey LLP

Des Moines, Iowa
May 2, 2013

State Appeal Board of Iowa

Statement of Assets and Liabilities - Modified Cash Basis
June 30, 2012

Assets	<u>\$ -</u>
Liabilities	\$ -
Contingencies (Note 3)	
Fund balance	-
Total liabilities and fund balance	<u>\$ -</u>

See Notes to Financial Statements.

State Appeal Board of Iowa

Statement of Cash Receipts and Disbursements - Modified Cash Basis
Year Ended June 30, 2012

Receipts, standing unlimited appropriation	\$ 17,239,954
Disbursements, claims paid and allocation for payroll and benefits	<u>17,239,954</u>
Cash balance, beginning and end of year	<u><u>\$ -</u></u>

See Notes to Financial Statements.

State Appeal Board of Iowa

Notes to Financial Statements

Note 1. Reporting Entity and Significant Accounting Policies

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 tort claims and judgments paid and general claims denied is made to the General Assembly.

The Appeal Board is considered an integral part of the State reporting entity. 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.

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, 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 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. The Appeal Board appropriation revenues are received on the basis of a standing unlimited appropriation from the State Legislature. Such an appropriation provides receipts for the payment of all disbursements approved by the Appeal Board. Therefore, appropriation receipts are recorded when disbursements are recorded. General and tort claims are recorded as disbursements when paid. Administrative claims are recorded as disbursements in the fiscal year if ratified within 60 days after the fiscal year. Settlements and judgments are recorded as disbursements and receipts when ratified. Accordingly, the accompanying financial statements do not purport to present the information therein in accordance with U.S. generally accepted accounting principles, which requires the use of the accrual or modified accrual basis of accounting.

State Appeal Board of Iowa

Notes to Financial Statements

Note 2. Officials

The following is a summary of officials as of June 30, 2012:

Name	Title
Appeal Board Members:	
David A. Vaudt - Chairperson	Auditor of State
David Roederer - Vice Chairperson	Director, Department of Management
Michael L. Fitzgerald - Member	Treasurer of State

Risk Manager - Joseph D. Barry

Note 3. Contingencies

The Appeal Board has the authority to approve or deny general claims less than five years old and ratify tort claims not over \$5,000. Further, all tort claims, whatever the amount, must be filed through the Appeal Board.

The Attorney General's office, on behalf of the State of Iowa, has the authority to approve or deny all tort claims.

State Appeal Board of Iowa

**Schedule of Tort Claims and General Claims (Unaudited)
Year Ended June 30, 2012**

As of June 30, 2012, the following tort claims and general claims are pending before the State Appeal Board (unaudited):

Tort claims (1):

Contingent highway tort claims	\$	27,627,664
Contingent highway tort lawsuits		18,663,035
Contingent tort claims for the State General Fund		65,688,040

General claims, contingent general claims of various
State departments

1,358,000

Total

\$ 113,336,739

- (1) This balance represents the total claim amount of all pending tort and other statutory or constitutional claims and cases against the State. In the aggregate, tort claims liability is estimated at approximately \$20 million.

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.

State Appeal Board of Iowa

Report to the Members of the
State Appeal Board of Iowa

May 2, 2013



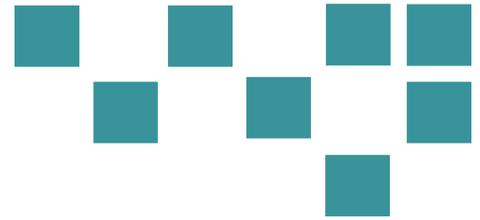
May 2, 2013

To the Members of the State Appeal Board of Iowa
Des Moines, Iowa

We are pleased to present this report related to our audit of the financial statements of the State Appeal Board of Iowa for the year ended June 30, 2012. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for State Appeal Board of Iowa's financial reporting process.

This report is intended solely for the information and use of the Board and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the State Appeal Board of Iowa.

McGladrey LLP



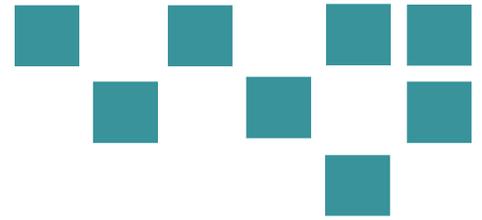
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Representation Letter

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Required Communications

Auditing guidance requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications:

Area	Comments
Auditor's Responsibility Under Professional Standards	Our responsibility under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States, has been described to you in our arrangement letter dated September 11, 2012.
Accounting Practices	Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the State Appeal Board of Iowa. The State Appeal Board of Iowa did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period. Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. Alternative Treatments Discussed with Management We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.
Management's Judgments and Accounting Estimates	The State Appeal Board of Iowa reports on the modified cash basis; therefore, there are no significant accounting estimates.
Audit Adjustments	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Area	Comments
Difficulties Encountered in Performing the Audit	We did not encounter any difficulties in dealing with management during the audit.
Certain Written Communications Between Management and Our Firm	Copies of certain written communications between our firm and the management of the State Appeal Board of Iowa are attached as Exhibit A.
Report on Internal Control and Compliance	The 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> is attached as Exhibit B.

Exhibit A – Significant Written Communications between Management and Our Firm

May 2, 2013

McGladrey LLP
400 Locust Street
Suite 640
Des Moines, Iowa 50309

In connection with your audit of the financial statements of the State Appeal Board of Iowa (the Board) as of and for the year ended June 30, 2012, we confirm that we are responsible for the fair presentation in the financial statements in conformity with the modified cash basis of accounting.

We confirm to the best of our knowledge and belief, as of May 2, 2013, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with the modified cash basis of accounting as described in Note 1 to the financial statements.
2. There are no organizations that are a part of the Board's reporting entity or with which we have a relationship, as these organizations are defined in Section 2100 of the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, that are:
 - a. Component units.
 - b. Other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the Board's financial statements to be misleading or incomplete.
 - c. Jointly governed organizations in which we participated.
3. The Board is a multi-member body established by the Code of Iowa to act on specific matters on behalf of the State of Iowa and is included in the State's primary government as this term is defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.
4. We have identified for you all of our funds and governmental functions.
5. We have properly classified all funds and activities.
6. We are responsible for compliance with laws and regulations applicable to the Board.
7. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

8. We have made available to you:
 - a. All financial records and related data of all funds and activities.
 - b. All minutes of the meetings of the Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
9. There have been no communications from grantors, lenders, other funding sources, or regulatory agencies concerning noncompliance with:
 - a. Statutory, regulatory or contractual provisions or requirements.
 - b. Financial reporting practices that could have a material effect on the financial statements.
10. We have no knowledge of fraud or suspected fraud affecting the Board involving:
 - a. Management,
 - b. Employees who have significant roles in the internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
11. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
12. We have no knowledge of any allegations of fraud or suspected fraud affecting the Board received in communications from employees, former employees, analysts, regulators or others.
13. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Board's ability to record, process, summarize and report financial data.
14. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
15. There are no accounting estimates included in the financial statements.
16. There are no:
 - a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
 - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.
 - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.
 - d. Guarantees, whether written or oral, under which the Board is contingently liable.
 - e. Risk retention.

- f. Line of credit or similar arrangements.
- g. Agreements to repurchase assets previously sold.
- h. Security agreements in effect under the Uniform Commercial Code.
- i. Liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
- j. Contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
- k. Liabilities which are subordinated in any way to any other actual or possible liabilities.
- l. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.
- m. Debt issue provisions.
- n. Cash, investments or deposits.
- o. Leases or material amounts of rental obligations under long-term leases.
- p. Authorized but unissued bonds and/or notes.
- q. Risk financing activities.
- r. Derivative financial instruments.
- s. Special or extraordinary items.
- t. Arbitrage rebate liabilities.
- u. Capital assets.
- v. Receivables that should be recorded under the modified cash basis.
- w. Pension obligations, post-retirement benefits other than pensions or deferred compensation agreements attributable to employee services rendered through June 30, 2012.
- x. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
- y. Material losses to be sustained as a result of purchase commitments.
- z. Environmental cleanup obligations.
- aa. Significant estimates and material concentrations known to management which are required to be disclosed in accordance with the AICPA's Statement of Position No. 94-6, *Disclosure of Certain Significant Risks and Uncertainties*.
- bb. New accounting pronouncements that will have a material effect on the Board. In that regard, disclosure of GASB Statement Nos. 60, 61, 62, 63, 65, 66, 67 and 68 is not applicable.

17. We are not aware of any pending or threatened litigation, claims, or assessments required to be accrued or disclosed in the financial statements in accordance with Statement of Financial Accounting Standards No.5 and/or GASB Statement No. 10 and we have not consulted a lawyer concerning litigation, claims or assessments.
18. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
19. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
20. Disbursements have been appropriately classified.
21. Receipts are appropriately classified.
22. With respect to supplementary information presented in relation to the financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with the modified cash basis of accounting.
 - c. The methods of measurement or presentation have not changed from those used in the prior fiscal year.
23. In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm:
 - a. We are responsible for:
 - i. Compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the Board.
 - ii. Establishing and maintaining effective internal control over financial reporting.
 - b. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
 - c. There are no violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on compliance.
 - d. We are not aware of fraud, illegal acts or violations of provisions of contracts or grant agreements.
 - e. There are no previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.
 - f. We have reviewed, approved and take full responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.

We are responsible for determining that significant events or transactions that have occurred since the statement of assets and liabilities – modified cash basis date and through May 2, 2013 have been recognized or disclosed in the financial statements. No events or transactions have occurred subsequent to the statement of assets and liabilities – modified cash basis date and through May 2, 2013 that would require recognition, or disclosure in, the financial statements. We further represent that as of May 2, 2013, the financial statements were complete in a form and format that complied with the modified cash basis of accounting and all approvals necessary for issuance of the financial statements have been obtained.

During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

State Appeal Board of Iowa

- NO LONGER AUDITOR OF STATE AS OF APRIL 30th/MAY 1st 2013 -

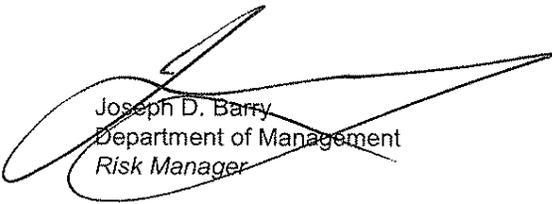
David A. Vaudt
Auditor of State
Chairperson



David Roederer
Director, Department of Management
Vice Chairperson



Michael L. Fitzgerald
Treasurer of State
Member



Joseph D. Barry
Department of Management
Risk Manager

**Exhibit B – 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***



**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***

Members of the State Appeal Board of Iowa
Des Moines, Iowa

We have audited the financial statements of the State Appeal Board of Iowa as of and for the year ended June 30, 2012, and have issued our report thereon dated May 2, 2013. Our report was modified to describe the basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and to describe the reporting entity is only that portion of the General Fund of the State of Iowa attributable to the transactions of the State Appeal Board of Iowa. 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 State Appeal Board of Iowa is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State Appeal Board of Iowa'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 Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

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 material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 the State Appeal Board of Iowa'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 State Appeal Board of Iowa and is not intended to be and should not be used by anyone other than the State Appeal Board.

McGladrey LLP

Des Moines, Iowa
May 2, 2013