EXECUTIVE COUNCIL OF IOWA

(A Component Unit of the State of Iowa)

Financial Statements and Supplementary Information

June 30, 2004

(With Independent Auditors' Report Thereon)

EXECUTIVE COUNCIL 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 Executive Council of Iowa:

We have audited the accompanying financial statements of the governmental activities and the general fund of the Executive Council 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 Executive Council of Iowa (a component unit of the State of Iowa). Our responsibility is to express opinions 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 opinions.

As discussed in note 1, the financial statements of the Executive Council of Iowa (a component unit of the State of Iowa) are intended to present the financial position and results of operations of only that portion of the general fund and governmental activities of the State of Iowa that is attributable to the transactions of the Executive Council 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 financial position of the governmental activities and general fund of the Executive Council of Iowa (a component unit of the State of Iowa) as of June 30, 2004, and the changes in financial position for the year 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 October 14, 2004 on our consideration of the Executive Council 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 management's discussion and analysis on pages 3 and 4 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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member firm of KPMG International, a Swiss cooperative.

Our audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying supplementary information included in schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

October 14, 2004

EXECUTIVE COUNCIL OF IOWA
(A Component Unit of the State of Iowa)

Management's Discussion and Analysis

June 30, 2004

The Executive Council of Iowa (Executive Council) provides this management's discussion and analysis of the Executive Council's annual financial statements. This narrative overview and analysis of the financial activities of the Executive Council is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Executive Council's financial statements, which follow this section.

Financial Highlights

The appropriation to the Executive Council was approximately $679,000 less than FY2003, a 33% decrease. The decrease is due to a decrease in approved Performance of Duty allocations for repairing, rebuilding, or restoring state property due to fire, storm, theft, or other unavoidable causes under the provisions of Chapter 29C.20 of the Code of Iowa.

The Executive Council did not distribute any new disaster aid loans during FY2004 and the amount due from other governments for disaster loans decreased by approximately 16.9%. The following is the condensed financial information of the Executive Council:

Executive Council of Iowa Net Assets

		2004	2003
Total assets – current	$	1,243,494	2,739,970
Total net assets – restricted by legislation	$	1,243,494	2,739,970

Executive Council of Iowa's Changes in Net Assets

		2004	2003
General revenues:			
State appropriations	$	1,357,831	2,036,758
Total expenses		2,403,532	1,453,481
Total other financing uses		450,775	144,110
Decrease/increase in net assets		(1,496,476)	439,167
Net assets – beginning		2,739,970	2,300,803
Net assets – ending	$	1,243,494	2,739,970

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the Executive Council's basic financial statements. The Executive Council's basic financial statements consist of a series of financial statements. The governmental fund balance sheet/statement of net assets and the statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities combine two sets of financial statements to compare information from a fund perspective with information about the activities of the Executive Council as a whole with a longer-term view of the Executive Council's finances. These basic financial statements also include the notes to financial statements that explain some of the information in the statements and provide more detail.

The statements demonstrate the financial information presented on a fund basis, which focuses on the sources, uses, and balances of current financial resources, and does not differ from the statements presented with a longer-term focus.

Reporting the Executive Council as a Whole

The governmental fund balance sheet/statement of net assets presents all of the Executive Council's assets and liabilities, with the difference between the two reported as "net assets." Because the Executive Council is appropriated all funds necessary to perform its duties, increases or decreases in the Executive Council's net assets do not serve as an indicator of whether its financial position is improving or deteriorating. Net assets represent the amount of assets encumbered or obligated for specific purposes.

Contacting the Executive Council's Financial Management

This financial report is designed to present users with a general overview of the Executive Council's finances and to demonstrate the Executive Council's accountability for funds received and expended. If you have questions about the report or need additional financial information, please contact the Office of the State Treasurer, State Capitol Building, Des Moines, IA 50319.

EXECUTIVE COUNCIL OF IOWA
(A Component Unit of the State of Iowa)

Governmental Fund Balance Sheet/Statement of Net Assets

June 30, 2004

		General fund	Adjustments	Statement of net assets
Assets:				
Unexpended appropriation	$	553,901	—	553,901
Due from other governments		689,593	—	689,593
Total assets		1,243,494	—	1,243,494
Fund balance/net assets:				
Reserved for specific purposes		1,243,494	(1,243,494)	—
	$	1,243,494	(1,243,494)	—
Net assets:				
Restricted by legislation			1,243,494	1,243,494
Total net assets			$ —	1,243,494

See accompanying notes to financial statements.

EXECUTIVE COUNCIL OF IOWA
(A Component Unit of the State of Iowa)

Statement of Governmental Fund Revenues,
Expenditures, and Changes in Fund Balance/Statement of Activities

For the year ended June 30, 2004

		General fund	Adjustments	Statement of net assets
Revenues:				
General revenue:				
State appropriations	$	1,357,831	—	1,357,831
Expenditures/expenses:				
Administration and regulation:				
Professional and scientific		90,397	—	90,397
Performance of duty		2,313,135	—	2,313,135
Total expenditures/expenses		2,403,532	—	2,403,532
Deficiency of revenues over expenditures/expenses		(1,045,701)	—	(1,045,701)
Other financing uses:				
Disaster aid loan repayments reverted		140,460	—	140,460
Other reversions		310,315	—	310,315
Total other financing uses		450,775	—	450,775
Deficiency of revenues over expenditures/expenses and other financing uses		(1,496,476)	—	(1,496,476)
Fund balance/net assets at the beginning of year		2,739,970	—	2,739,970
Fund balance/net assets at the end of year	$	1,243,494	—	1,243,494

See accompanying notes to financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Executive Council of Iowa (the Council) was organized by the adoption of the State Code of Iowa of 1860. The duties of the Council, detailed in Chapter 7D and various other chapters of the State Code of Iowa, include: acting on all State of Iowa (the State) activities and notifying all interested persons of action taken thereon; determining the value at which property may be taken by Iowa corporations and the amount of stock which may be issued on account thereof; approving articles of incorporation and bylaws of building and loan associations and planning liquidation of said associations; authorizing department leases; authorizing and paying special assessments; authorizing and paying court costs and special attorney fees; authorizing condemnation proceedings; approving bank depositories of public funds; approving out-of-state travel; and canvassing votes cast for State and district officers. The Council consists of five members: the Governor, Secretary of State, Auditor of State, Treasurer of State, and Secretary of Agriculture. The Council appoints a secretary to carry out the duties of the Council.

Summary of Significant Accounting Policies

The accounting and reporting policies of the Council included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The accompanying financial statements present only that portion of the General Fund of the State that is attributable to the transactions of the Council. The following represents the significant accounting and reporting policies and practices used by the Council:

(a) Office-wide and Fund Financial Statements

The financial statements on pages 5 and 6 combine both an office-wide perspective and a governmental perspective.

The General Fund comprises the Council's governmental fund type. This fund is the general operating fund of the Council and the difference between assets and liabilities of the fund are referred to as "fund balance."

The office-wide financial statements, the governmental fund balance sheet/statement of net assets and the statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities report information on all the activities of the Council. Governmental activities are those which normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The office-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities or the current period. For this purpose, the Council considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payments are due.

(c) Unexpended Appropriations

Unexpended appropriations represent appropriations that have been set-aside for a specific purpose by State law. These unexpended appropriations are carried forward to future periods until expended or determination the appropriation is not needed, at which time the remainder is reverted to the State.

(d) Budgetary Control

Budgetary control is exercised over the Council through the budgetary process prescribed in Chapter 8 of the State Code of Iowa. Each department of the State prepares estimates of expenditures and income for the fiscal year. These estimates are transmitted to the Department of Management for its review; it then submits a tentative budget to the Governor. After holding public hearings, the Governor prepares and transmits the budget to the State Legislature. The State Legislature appropriates funds to the various departments based on the budget as adjusted through the appropriation process. No obligation can be incurred subsequent to June 30 for which an appropriation is made. On August 31, following the close of each fiscal year, all unencumbered or unobligated balances of appropriations revert to the State Treasury and to the credit of the fund from which the appropriations were made. The final amounts appropriated are not identified by budget categories and unexpended appropriations revert to the Treasurer of State; thus, the statement of revenues, expenditures, and changes in fund balance in this report does not contain a comparison of budgeted to actual revenue and expenditures.

(2) Officials

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

Name	Title
Executive Council Members:	
Honorable Thomas Vilsack	Governor
Honorable Chester Culver	Secretary of State
Honorable David Vaudt	Auditor of State
Honorable Michael Fitzgerald	Treasurer of State
Honorable Patty Judge	Secretary of Agriculture
Secretary:	
GeorgAnna Madsen	

(3) Due from Other Governments

Due from other governments consists of outstanding disaster aid loans to certain governmental subdivisions (i.e., cities and counties in Iowa). Amounts due from other governments in connection with single disaster loans at June 30, 2004 are as follows:

Lynn County	$	88,746
Montgomery County		218,059
City of Des Moines		93,195
City of Volga		141,750
City of Dunkerton		82,500
Buchanan County		65,343
Total	$	689,593

Schedule 1

EXECUTIVE COUNCIL OF IOWA
(A Component Unit of the State of Iowa)

Schedule of Results of Operations –
All General Fund Accounts

Year ended June 30, 2004

	Drainage assessments	Court costs	Public improvements	Performance of duty	Total
Revenues:					
General revenues – State appropriations	$ 23,200	65,947	1,250	1,267,434	1,357,831
Expenditures:					
Professional and scientific services	23,200	65,947	1,250	—	90,397
Performance of duty	—	—	—	2,313,135	2,313,135
Total expenditures/expenses	23,200	65,947	1,250	2,313,135	2,403,532
Deficiency of revenues over expenditures/expenses	—	—	—	(1,045,701)	(1,045,701)
Other financing uses:					
Disaster aid loan repayments reverted	—	—	—	140,460	140,460
Other reversions	—	—	—	310,315	310,315
Total other financing uses	—	—	—	450,775	450,775
Deficiency of revenues over expenditures/expenses and other financing uses	—	—	—	(1,496,476)	(1,496,476)
Fund balance/net assets at beginning of year	—	—	—	2,739,970	2,739,970
Fund balance/net assets at end of year	$ —	—	—	1,243,494	1,243,494

See accompanying independent auditors' report.

Schedule 2

EXECUTIVE COUNCIL OF IOWA
(A Component Unit of the State of Iowa)

Schedule of Changes in Due From Other Governments –
Disaster Aid Loans to Governmental Subdivisions –
Performance of Duty Account

Year ended June 30, 2004

Subdivision	Date of loan	Original amount	Balance July 1, 2003	Loans disbursed	Payments received	Balance June 30, 2004
Lyon County	07/17/98	$ 221,865	110,932	—	22,186	88,746
Montgomery County	07/17/98	545,148	272,574	—	54,515	218,059
City of Des Moines	07/17/98	232,987	116,494	—	23,299	93,195
City of Volga	07/07/00	112,500	165,375	—	23,625	141,750
City of Dunkerton	11/22/00	93,347	90,000	—	7,500	82,500
Buchanan County	05/04/00	236,250	74,678	—	9,335	65,343
Total		$ 1,442,097	830,053	—	140,460	689,593

See accompanying independent auditors' report.

Schedule 3

EXECUTIVE COUNCIL OF IOWA
(A Component Unit of the State of Iowa)

Schedule of Results of Operations and Changes in
Accounting Balances by Allocations –
Performance of Duty Account

Year ended June 30, 2004

	Account Balance July 1, 2003	Revenues	Expenditures	Reversions		Account Balance June 30, 2004
1998-1999:						
Iowa State Fair – Storm Damage to Cattle Barn	70,650	—	—	(70,650)		—
DNR – Twin Lakes State Park – Restroom destroyed by Fire	1,158	—	—	(1,158)		—
2000-2001:						
IA Vets home – Hail damage to vehicle #1086, #1194, and #1198	851	—	—	(851)		—
DPS – Iowa State Patrol – Hail damage to vehicle #424	(5,367)	—	—	5,367		—
Iowa Vets Home – Hail damage to roofs of 12 buildings	47	—	—	(47)		—
DPS – Hail damage to state vehicles	17,753	—	—	(17,753)		—
DPS – Division of Criminal Investigation Council Bluffs – Hail damage to vehicles #574, #637, #641, #675, #679, and #583	(3,197)	—	—	3,197		—
2001-2002:						
DHS – Independence Mental Health Institute power outage	9,000	—	(9,000)	—		—
DEM – FEMA-DR-1367-Public Assistance	570,000	—	(500,000)	—		70,000
DEM – FEMA-DR-1367-Hazard mitigation	148,461	—	(62,000)	—		86,461
DPS – Iowa State Patrol vehicle 354 in Red Oak hail damage	128	—	(128)	—		—
DNR – Water leak caused flooding in Air Quality Bureau Office	2,506	—	(2,506)	—		—
ICN – Fiber optic cable damage in Winneshiek County caused by gophers	2,445	—	(2,445)	—		—
DGS – Water pipe break in Hoover building	(75,511)	94,438	(18,927)	—		—
ICN – Water pipe break in Hoover building	115,807	—	(115,807)	—		—
DPD – Iowa National Guard Sioux City Armory damage	174	—	(174)	—		—
DHS – IFG program – FEMA 1420-DR flooding in eight counties	(35,973)	—	35,973	—		—
2002-2003:						
DHS – FEMA-DR-1367 – Individual and Family Grant Program – Flood damage	228,420	—	—	(228,420)		—
DEM FEMA #1420	400,000	—	(400,000)	—		—
DEM FEMA #1420	161,326	—	(96,821)	—		64,505
DHS, Ia Juvenile Home, Toledo	170,531	—	(170,531)	—		—
DPS, Iowa St. Patrol Vehicle 213	177	—	(177)	—		—
ICN Fiber Optic Damage, Palo Alto Cty	7,740	—	(7,740)	—		—
Jasper County Fiber Damage	7,771	—	(7,771)	—		—
DGS Water Damage, Rm 318	30,758	—	(30,758)	—		—
ICN Fiber Damage, Jones County	11,116	—	(11,116)	—		—
ICN Fiber Damage, Iowa City	12,382	—	(12,382)	—		—
Newton Corr Facilities, Water Pipe Damage	16,884	—	—	—		16,884
Dept of Public Def., Roof Damage	43,880	—	(43,880)	—		—
2003-2004:						
Dept. Corr., Rockwell City Lightning Damage	—	9,816	(9,816)	—		—
Eldora Water Main Break	—	19,981	(19,981)	—		—
PER Board Office Theft	—	5,039	(5,039)	—		—
Dept. Corr., Mt. Pleasant Lightning Damage	—	4,000	(4,000)	—		—
Eldora Lightning Damage	—	6,506	(6,506)	—		—
Dept. Corr., Newton Lightning Damage	—	8,315	(8,315)	—		—
IA St. Pent. Ft. Madison Dump Truck Accident	—	3,883	(3,883)	—		—
DNR - Pilot Knob Fire Damage	—	45,500	—	—		45,500
DHS, Cherokee Storm Damage	—	36,470	(36,470)	—		—
Dept. Corr., Rockwell City Lightning Damage	—	19,178	(19,178)	—		—
Dept. Corr., Ft. Madison Fire Damage	—	3,584	(3,584)	—		—
Ft. Madison Power Outage	—	2,320	(2,320)	—		—
DAS, Rain damage to Wallace parking ramp	—	8,100	(8,100)	—		—
DPS, lightning damage	—	4,789	(4,789)	—		—
DAS, parking garage damage	—	5,669	(5,669)	—		—
DPS, Vehicle damage #161, 321, & 318	—	6,191	(5,475)	—		716
DHS, Central Dist. Center snow damage	—	253,128	—	—		253,128
DOC, Water leak at John Bennett unit	—	44,176	(44,176)	—		—
DAS, Vandalism to OBM & Wallace Building	—	3,400	(3,400)	—		—
DPS, Vehicle damage #452, 459, 122 & 362	—	4,814	(4,814)	—		—
DOM, Fire damage to Henry Co. Courthouse	—	17,795	(17,795)	—		—
DAS, Wind damage to OBM building	—	23,517	(15,577)	—		7,940
Corrections, Mitchellville, lightning damage	—	4,850	—	—		4,850
DHS, FEMA - DR - 1518	—	580,500	(580,500)	—		—
DOC, Newton - sewer line leak	—	11,786	(11,786)	—		—
DPS, State Patrol hail damage to vehicle #52	—	4,685	(3,362)	—		1,323
DPS, Hail damage to vehicles #395, 372, 340 & 364	—	9,622	(7,028)	—		2,594
IDALS, Hazardous Materials Disposal	—	25,382	(25,382)	—		—
Disaster Aid Loans:						
Lyon County	110,932	—	—	(22,186)	**	88,746
Montgomery County	272,574	—	—	(54,515)	**	218,059
City of Des Moines	116,494	—	—	(23,299)	**	93,195
City of Dunkerton	165,375	—	—	(23,625)	**	141,750
Buchanan County	90,000	—	—	(7,500)	**	82,500
City of Volga	74,678	—	—	(9,334)	**	65,344
	$ 2,739,970	1,267,434	(2,313,135)	(450,774)		1,243,495

** Disaster aid loan repayment reverted to State Treasurer

See accompanying independent auditors' report.

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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 Executive Council of Iowa:

We have audited the financial statements of the Executive Council 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 Executive Council 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 consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Executive Council 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, grants, 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 Executive Council 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

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.