

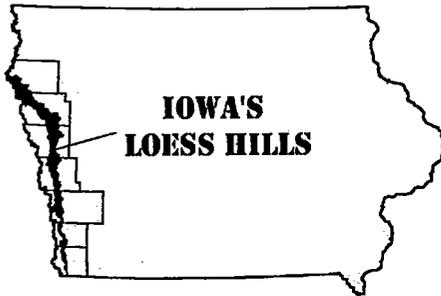
LOESS HILLS ALLIANCE
Council Bluffs, Iowa
FINANCIAL STATEMENTS
June 30, 2004 and 2003
(With Independent Auditor's Report Thereon)

LOESS HILLS ALLIANCE

Council Bluffs, Iowa

Table of Contents

	<u>Pages</u>
Management's Discussion and Analysis	1-4
Independent Auditor's Report	5
Statements of Financial Position	6
Statements of Activities and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to Financial Statements	9-10
Budgetary Comparison Schedule – Required Supplemental Information	11
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	12



LOESS HILLS ALLIANCE

318 E. Iowa Avenue
Onawa, Iowa 51040
Phone: 712-433-2400
E Mail: mccb@longlines.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Loess Hills Alliance (LHA) provides this Management's Discussion and Analysis of the LHA's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the LHA's financial statements which follow.

2004 Financial Highlights

- LHA state appropriations increased from \$0 to \$200,000 from fiscal year 2003 to fiscal year 2004.
- The LHA's budget expenditures for fiscal year 2004 were approximately \$196,889 less than anticipated, or 63% under budget. Many of the programs and activities, approved in each of the committees, were unable to be completed within the fiscal year 2004 and were extended into fiscal year 2005. Associated cooperative agreements between agencies and individuals were also extended.
- The LHA's net assets increased by \$88,856, or approximately 60%, from June 30, 2003 to June 30, 2004.
- The LHA's total liabilities and net assets increased by \$79,791, or approximately 50%, from June 30, 2003 to June 30, 2004. The increase in the LHA's total liabilities and net assets is due in large part to the renewal of state appropriations in fiscal year 2004, after suspension of funding in fiscal year 2003.

Using this Annual Report

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the LHA's financial activities.

The basic financial statements consist of a Statement of Financial Position including assets, liabilities, and net assets, a Statement of Activities and Changes in Net Assets, and a Statement of Cash Flows. These statements provide information about the activities of the LHA, on a comparative basis, including resources held by the LHA but restricted for specific purposes by legislation or by the LHA's Board of Directors.

Notes to Financial Statements (pg. 9-10) provide additional information essential to a full understanding of the data provided in the basic financial statements.

Reporting the LHA's Financial Activities

The Statement of Financial Position and Statement of Activities and Changes in Net Assets

One of the most important questions regarding the LHA's finances is "Was the LHA monetarily able to attain its goals during the year?" The Statement of Financial Position and the Statement of Activities and Changes in Net Assets report information about the LHA's resources and its activities in a way that helps answer this question. These statements include all assets (restricted and unrestricted) and all liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the LHA's net assets, which is the difference between assets and liabilities, as one way to measure the LHA's financial position. Over time, increases or decreases in the LHA's net assets are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in appropriations and legislation, and reductions in the amount of local matching funds available, are also important in making this determination.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from three defined types of programs/activities: economic development grants, natural resource protection grants, and private lands stewardship development projects. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

Financial Analysis of the LHA

As noted earlier, net assets may serve over time as a useful indicator of financial position. The LHA's net assets increased by \$88,856 (59.7%) from fiscal year 2003 to fiscal year 2004.

Assets, Liabilities and Net Assets		
	June 30,	
	2004	2003
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 234,566	153,021
Net Property and Equipment	2,400	4,280
Prepaid Expense	829	703
Total Assets	<u>\$ 237,795</u>	<u>158,004</u>

Current Liabilities and Net Assets

Current Liabilities		
Accounts Payable	\$ -0-	8,992
Other Accrued Expenses Payable	-0-	73
Total Liabilities	<u>-0-</u>	<u>9,065</u>
Net Assets		
Unrestricted		
Invested in Property and Equipment	2,400	4,280
Undesignated	9,650	7,440
	<u>12,050</u>	<u>11,720</u>
Temporarily Restricted	<u>225,745</u>	<u>137,219</u>
Total Net Assets	<u>237,795</u>	<u>148,939</u>
Total Liabilities and Net Assets	<u>\$ 237,795</u>	<u>158,004</u>

Total net assets increased by \$88,856 from fiscal 2003 to fiscal 2004. All restricted fund resources are available immediately and obligated to the committees' programs as approved each fiscal year. Carryover committee budget obligations from previous fiscal years, increase operating expenses and decrease net assets in current fiscal years, as programs are completed.

The following shows the changes in net assets for the LHA.

Revenues, Expenses and Changes in Net Assets		
	June 30,	
	2004	2003
	<u>2004</u>	<u>2003</u>
Operating Revenues:		
State Appropriations	\$ 200,000	-0-
Other	2,327	1,006
Total Operating Revenues	<u>202,327</u>	<u>1,006</u>
Operating Expenses:		
Economic Development	(22,700)	(39,123)
Executive Committee	(9,684)	(22,587)
I & E Committee	-0-	(5,000)
Protection Committee	(17,452)	(110,048)
Stewardship Committee	(64,492)	(66,338)
Miscellaneous	(1)	-0-
Provision for Depreciation	(1,880)	(1,880)
Total Operating Expenses	<u>(116,209)</u>	<u>(244,976)</u>

Non-Operating Revenues:

Interest Earned	2,738	5,950
Total Non-Operating Revenues	<u>2,738</u>	<u>5,950</u>
Increase (Decrease) in Net Assets	88,856	(238,020)
Net Assets - Beginning of Year	<u>148,939</u>	<u>386,959</u>
Net Assets - End of Year	<u>\$ 237,795</u>	<u>148,939</u>

Suspension of state funding in 2003, negatively impacted the programs sponsored by the LHA by suspending or drastically reducing the number and scope of projects or programs serving western Iowa and the Loess Hills area. With the renewal of state funding in 2004, the LHA has been able to reinstate a portion of the programs.

Factors Affecting the LHA's Future

The LHA continued to maintain a good financial position during the current fiscal year. However, the condition of the national, state, and local economies will continue to be a concern for the LHA Board of Directors. Some of the realities that may potentially become challenges for the LHA are:

- Ensuring that natural and cultural resource protection and economic development of the Loess Hills remains an important issue in the eyes of federal, state, county, and local governments.
- Reductions in state appropriations.

Contacting the LHA's Financial Management

This financial report is designed to provide federal, state, and county governments, partners, and taxpayers with a general overview of the LHA's finances and to show the LHA's accountability for the money it receives. If you have questions about this report and/or need additional financial information, contact Loess Hills Alliance, 712 S. Hwy. 6 & 59, P.O. Box 189, Oakland, IA 51560-0189. Phone #712-482-3029.

MERIWETHER, WILSON AND COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

5

CRAIG A. DITSWORTH, CPA
WILLIAM H. BOORN, CPA
DENNIS L. MUELLER, CPA
DENNIS J. WAGNER, CPA
STEPHEN L. KOEHN, CPA
SUSAN K. CHANTLAND, CPA
C. MARK LINCOLN, CPA
JOHN E. ORTHAUS, CPA
SCOTT W. MILLER, CPA
MICHAEL T. BURTON, CPA
WILLIAM J. BAUER, CPA
WENDY G. WIEDNER, CPA
JON J. PAULSEN, CPA

OFFICES AT

REGENCY WEST 5
4500 WESTOWN PARKWAY, SUITE 140
WEST DES MOINES, IOWA 50266-6717

1307 2ND STREET, PERRY, IOWA 50220

TELEPHONE
WEST DES MOINES 515/223-0002
PERRY 515/465-3591

FAX
WEST DES MOINES 515/223-0430
PERRY 515/465-3591

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Loess Hills Alliance
Council Bluffs, Iowa

We have audited the accompanying Statements of Financial Position of Loess Hills Alliance (a nonprofit organization) as of June 30, 2004 and 2003, and the related Statements of Activities and Changes in Net Assets, and Cash Flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audits provide 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 Loess Hills Alliance as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated August 6, 2004, on our consideration of Loess Hills Alliance'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.

The management's discussion and analysis and budgetary comparison information on pages 1 through 4 and 11, are not required parts of the basic financial statements but are 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.

Meriwether Wilson and Company, P.L.C.
MERIWETHER, WILSON AND COMPANY, P.L.C.
Certified Public Accountants

August 6, 2004
West Des Moines, Iowa

LOESS HILLS ALLIANCE
Statements of Financial Position

June 30,

Assets

	2004	2003
Current Assets		
Cash and Cash Equivalents	\$ 234,566	153,021
Prepaid Expense	829	703
Total Current Assets	235,395	153,724
Property and Equipment		
Equipment	9,402	9,402
Accumulated Depreciation	(7,002)	(5,122)
Net Property and Equipment	2,400	4,280
Total Assets	\$ 237,795	158,004

Liabilities and Net Assets

Current Liabilities		
Accounts Payable	\$ --	8,992
Other Accrued Expenses Payable	--	73
Total Current Assets	--	9,065
Net Assets		
Unrestricted		
Invested in Property and Equipment	2,400	4,280
Undesignated	9,650	7,440
Total	12,050	11,720
Temporarily Restricted		
State Funds	225,745	137,219
Total Net Assets	237,795	148,939
Total Liabilities and Net Assets	\$ 237,795	158,004

The accompanying notes are an integral part of these financial statements.

LOESS HILLS ALLIANCE

Statements of Activities and Changes in Net Assets

Years Ended June 30,

	2004			2003		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
State Appropriations	\$ --	200,000	200,000	--	--	--
Interest	--	2,738	2,738	--	5,950	5,950
Miscellaneous	2,085	242	2,327	300	706	1,006
Temporarily Restricted Funds						
Released from Restrictions	114,454	(114,454)	--	237,957	(237,957)	--
Total Support and Revenue	116,539	88,526	205,065	238,257	(231,301)	6,956
Expenses						
Economic Development	22,700	--	22,700	39,123	--	39,123
Executive Committee	9,684	--	9,684	22,587	--	22,587
I & E Committee	--	--	--	5,000	--	5,000
Protection Committee	17,452	--	17,452	110,048	--	110,048
Stewardship Committee	64,492	--	64,492	66,338	--	66,338
Depreciation	1,880	--	1,880	1,880	--	1,880
Miscellaneous	1	--	1	--	--	--
Total Expenses	116,209	--	116,209	244,976	--	244,976
Increase (Decrease) in						
Net Assets	330	88,526	88,856	(6,719)	(231,301)	(238,020)
Net Assets - Beginning of Year	11,720	137,219	148,939	18,439	368,520	386,959
Net Assets - End of Year	\$ 12,050	225,745	237,795	11,720	137,219	148,939

The accompanying notes are an integral part of these financial statements.

LOESS HILLS ALLIANCE
Statements of Cash Flows
 Years Ended June 30,

	<u>2004</u>	<u>2003</u>
Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets	\$ 88,856	(238,020)
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities		
Charges to Operations Not Requiring Cash		
Depreciation	1,880	1,880
(Increase) Decrease in Prepaid Expenses	(126)	140
Decrease in Accounts Payable and Accrued Expenses	<u>(9,065)</u>	<u>(5,410)</u>
Net Increase (Decrease) in Cash	81,545	(241,410)
Cash Balances - Beginning of Year	<u>153,021</u>	<u>394,431</u>
Cash Balances - End of Year	<u><u>\$ 234,566</u></u>	<u><u>153,021</u></u>

The accompanying notes are an integral part of these financial statements.

LOESS HILLS ALLIANCE

Notes to Financial Statements

June 30, 2004 and 2003

1. Nature of Activities and Summary of Significant Accounting Policies

Loess Hills Alliance is a private nonprofit corporation organized under Chapter 504(A), Code of Iowa 1981. The Organization's primary focus is to protect special natural and cultural resources while ensuring economic viability and private property rights of the loess soils region of western Iowa.

The Organization is funded primarily through appropriations from state governmental agencies and support from local county governments.

In 2004, the Organization implemented GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.

The accompanying financial statements, which include all programs administered by Loess Hills Alliance, have been prepared in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other accounting principles appropriate for nonprofit associations.

The Organization's Board of Directors is comprised of three members appointed by the board of supervisors of each county participating in the Alliance and at least one of the appointees shall be a member of the board of supervisors from each county. Seven additional members shall be persons with experience in the fields of environmental affairs, conservation, finance, development, tourism, or related fields, and whom the Loess Hills Development and Conservation Authority shall appoint.

The Statements of Financial Position, Activities and Changes in Net Assets, and Cash Flows are all organization-wide financial statements. They report information for all of Loess Hills Alliance's activities, which are in turn all deemed to be Governmental activities. The Organization has no proprietary type activities.

The following describes the significant accounting policies.

Revenue Recognition

Revenues from appropriations, grants and other services are recognized when received or accrued. State appropriations, and interest earned thereon, in excess of related program expenses are recorded as temporarily restricted net assets until those funds are expended.

Income Taxes

The Organization is considered to be an affiliate of a governmental unit, making it exempt from state and federal income taxes under the Internal Revenue Code and, accordingly, no provision has been made for income tax liabilities or expense. The Organization is not considered a private foundation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all highly liquid debt instruments purchases with maturity of three months or less to be cash equivalents. The Organization did not hold any such investments at the year-end date.

Concentration of Credit Risk

Support from Government Agencies - The Organization receives a substantial portion of its revenue from state grants. A significant reduction in the level of government funding would have a major affect on the Organization's programs and activities.

Cash funds deposited in excess of federally insured limits are protected by the Iowa State Sinking Fund for banks and savings associations, which covers Iowa uninsured public funds.

Fair Value of Financial Instruments

The carrying amounts of cash, receivables, accounts payable, accrued expenses, and other liabilities approximate their fair values due to the short-term maturities of these financial instruments.

Reclassifications

Certain reclassifications to the 2003 financial statements have been made to conform to the 2004 presentation.

Donor - Imposed Restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support depending on the nature of the restriction.

Property and Equipment

Equipment consists primarily of office equipment and is recorded at cost. Depreciation is provided on a straight-line basis over the five year estimated lives of the equipment.

2. Cooperative Agreement

The Organization enters into, on an annual basis, a cooperative agreement with Golden Hills Resource Conservation and Development, Inc. Under this agreement, Golden Hills Resource Conservation and Development, Inc. agrees to provide management of Loess Hills Alliance funds including bookkeeping services, payroll services, and monthly and annual reporting.

LOESS HILLS ALLIANCE
Budgetary Comparison Schedule
 Year Ended June 30, 2004

	Budget (Including Carryover)	Actual	Budget Variance Over (Under)
Support and Revenue			
State Appropriations	\$ 337,219	200,000	(137,219)
Interest	--	2,738	2,738
Miscellaneous	--	2,327	2,327
Total Support and Revenue	<u>337,219</u>	<u>205,065</u>	<u>(132,154)</u>
Expenses			
Economic Development	91,700	22,700	(69,000)
Executive Committee	18,134	9,684	(8,450)
Protection Committee	57,452	17,452	(40,000)
Stewardship Committee	99,932	64,492	(35,440)
Project Driven	44,000	--	(44,000)
Miscellaneous	--	1	1
Total Expenses	<u>311,218</u>	<u>114,329</u>	<u>(196,889)</u>
Increase in Net Assets	26,001	90,736	64,735
Net Assets - Beginning of Year	<u>148,939</u>	<u>148,939</u>	<u>--</u>
Net Assets - End of Year	<u>\$ 174,940</u>	<u>239,675</u>	<u>64,735</u>
Increase in Net Assets - Budget Basis		\$ 90,736	
Depreciation Expense		<u>(1,880)</u>	
Increase in Net Assets - GAAP Basis		<u>\$ 88,856</u>	

SEE INDEPENDENT AUDITOR'S REPORT

CRAIG A. DITSWORTH, CPA
WILLIAM H. BOORN, CPA
DENNIS L. MUELLER, CPA
DENNIS J. WAGNER, CPA
STEPHEN L. KOEHN, CPA
SUSAN K. CHANTLAND, CPA
C. MARK LINCOLN, CPA
JOHN E. ORTHAUS, CPA
SCOTT W. MILLER, CPA
MICHAEL T. BURTON, CPA
WILLIAM J. BAUER, CPA
WENDY G. WIEDNER, CPA
JON J. PAULSEN, CPA

OFFICES AT
REGENCY WEST 5
4500 WESTOWN PARKWAY, SUITE 140
WEST DES MOINES, IOWA 50266-6717
1307 2ND STREET, PERRY, IOWA 50220

TELEPHONE
WEST DES MOINES 515/223-0002
PERRY 515/465-3591
FAX
WEST DES MOINES 515/223-0430
PERRY 515/465-3591

**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**

Board of Directors
Loess Hills Alliance
Council Bluffs, Iowa

We have audited the financial statements of Loess Hills Alliance as of and for the year ended June 30, 2004, and have issued our report thereon dated August 6, 2004. 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

In planning and performing our audit, we considered Loess Hills Alliance's 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 caused by error or fraud 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 Loess Hills Alliance'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 that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Meriwether, Wilson and Company, P.L.C.
MERIWETHER, WILSON AND COMPANY, P.L.C.
Certified Public Accountants

August 6, 2004
West Des Moines, Iowa