

HUNGRY CANYONS ALLIANCE, INC.

Oakland, Iowa

FINANCIAL STATEMENTS

June 30, 2004 and 2003

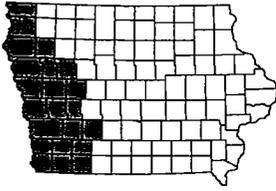
(With Independent Auditor's Report Thereon)

HUNGRY CANYONS ALLIANCE, INC.

Oakland, Iowa

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Hungry Canyons Alliance, Inc. (HCA) provides this Management's Discussion and Analysis of the HCA'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 HCA's financial statements which follow.

2004 Financial Highlights

- HCA Federal appropriations remained the same from fiscal year 2003 to fiscal year 2004.
- HCA state appropriations increased from \$0 to \$400,000 from fiscal year 2003 to fiscal year 2004.
- The HCA's budget expenditures for fiscal year 2004 were approximately \$44,000 less than anticipated, or 3.3% under budget.
- The HCA's net assets decreased by 1.7%, or approximately \$29,000, from June 30, 2003 to June 30, 2004.
- The HCA's total liabilities and net assets decreased by 1.2%, or approximately \$33,000, from June 30, 2003 to June 30, 2004. A decrease in the HCA's total liabilities and net assets is due in large part because more streambed stabilization structures were completed in 2004 than in 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 HCA'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 HCA, on a comparative basis, including resources held by the HCA but restricted for specific purposes by legislation or by the HCA's Board of Directors.

Notes to Financial Statements (pg. 10-11) provide additional information essential to a full understanding of the data provided in the basic financial statements.

Reporting the HCA'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 HCA's finances is "Was the HCA 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 HCA'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 HCA's net assets, which is the difference between assets and liabilities, as one way to measure the HCA's financial position. Over time, increases or decreases in the HCA's net assets are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in the number of member counties involved in the HCA, changes in appropriations and legislation, measures of the number and type of structures approved or built, and the amount of local matching funds, 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 activities: cost share for county structures, cost share for small structures, and research. 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 HCA

As noted earlier, net assets may serve over time as a useful indicator of financial position. The HCA's net assets decreased by \$ 29,066 (1.7%) from fiscal year 2003 to fiscal year 2004.

Assets, Liabilities and Net Assets

	June 30,	
	2004	2003
Current assets	\$ 1,926,453	1,956,770
Restricted assets	766,139	770,233
Capital assets	4,611	3,152
Total assets	<u>\$ 2,697,203</u>	<u>2,730,155</u>

Current liabilities	\$ 969,061	972,947
Long-term debt	-0-	-0-
Total liabilities	<u>969,061</u>	<u>972,947</u>
Net assets:		
Invested in capital assets, net of related debt	4,611	3,152
Restricted:		
Non-expendable	1,393,057	1,350,538
Expendable	<u>164,179</u>	<u>254,319</u>
Total restricted assets	1,557,236	1,604,857
Unrestricted	<u>166,295</u>	<u>149,199</u>
Total net assets	<u>1,728,142</u>	<u>1,757,208</u>
Total liabilities & net assets	<u>\$2,697,203</u>	<u>2,730,155</u>

Restricted assets decreased by \$ 47,621 from fiscal 2003 to fiscal 2004 due to the increase in the number of small structures obligated in fiscal year 2004 as compared to fiscal year 2003. All restricted fund resources are available immediately and obligated to the newly-approved structures each quarter.

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

Revenues, Expenses and Changes in Net Assets		
	June 30,	
	2004	2003
Operating revenues:		
Federal Contracts Paid	\$ 856,762	137,179
State Appropriations	400,000	-0-
County Contributions	35,000	40,000
Other	<u>1,454</u>	<u>732</u>
Total operating revenues	<u>1,293,216</u>	<u>177,911</u>
Operating expenses:		
Administrative	(115,000)	(105,000)
General	(10,241)	(4,319)
Lobbying	(7,500)	(7,500)
Research	(25,338)	(19,420)
Federal Structures Completed	(809,464)	(113,402)
State Structures Completed	(312,143)	(53,736)
Small Structures Completed	(87,587)	13,300
Provision for Depreciation	<u>(1,107)</u>	<u>(849)</u>
Total operating expenses	<u>(1,368,380)</u>	<u>(290,926)</u>

Non-operating revenues:

Interest Earned	46,098	63,958
Gain (loss) on disposal of equipment	-0-	350
Total non-operating revenues	<u>46,098</u>	<u>64,308</u>
Increase (decrease) in net assets	\$ (29,066)	(48,707)
Net Assets-Beginning of Year	<u>1,757,208</u>	<u>1,805,915</u>
Net Assets-End of Year	<u>\$ 1,728,142</u>	<u>1,757,208</u>

The slight decrease in total liabilities and net assets of (1.7%) (net assets of \$2,697,203 in 2004 down from \$2,730,155 in 2003) is a result of the unpredictable nature in when structures are completed. Many things affect when a structure can be completed including workload of county engineering departments, permitting, availability of county matching funds, season, stream levels, contractor availability, etc. The infrastructure cost-share paid to the counties does not constitute any HCA ownership of those structures. HCA does not retain any infrastructure assets with the counties structures program or with the small structures program.

Structures are approved for cost share quarterly and structures are completed and paid year-around, so an average of 35 structures are in progress year around. However, structures approved in 2002 and 2003 for federal and state cost share were able to be completed in 2004, hence the dramatic increase in federally-funded structures paid of \$809,464 in 2004 as compared to \$113,402 in 2003 (an increase of \$696,062) and state-funded structures paid of \$312,143 in 2004 as compared to \$53,736 in 2003 (an increase of \$258,407).

Suspension of state funding in 2003 forced the HCA to suspend the small structure program, which is funded with interest earned from state funds; with the renewal of state funding in 2004 the program was reinstated, explaining the increase in small structure expenses in 2004.

The following table lists the funds for county structure cost share that the HCA has administered during the fiscal years 2002 through 2004.

Funds Administered by HCA for County Structures - 2002 to 2004				
Year	Federal Funds Appropriated	State Funds Appropriated	County Fee	Total Contribution
2002	\$ 800,000	\$ 441,667	\$ 55,000	\$ 1,296,667
2003	\$ 1,200,000	\$ -	\$ 40,000	\$ 1,240,000
2004	\$ 1,200,000	\$ 400,000	\$ 42,500	\$ 1,642,500
Total	\$ 3,200,000	\$ 841,667	\$ 137,500	\$ 4,179,167

Factors Affecting the HCA's Future

The HCA continued to maintain its 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 HCA Board of Directors. Some of the realities that may potentially become challenges for the HCA are:

- Ensuring that infrastructure protection and mitigating the negative impacts of streambed degradation remains an important issue in the eyes of federal, state, county, and local governments.
- Reductions in federal and state appropriations.
- Funding reductions for local governments that may limit the amount of matching funds available for projects.
- Changes in the number of counties involved with the HCA.

Contacting the HCA's Financial Management

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

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
 Hungry Canyons Alliance, Inc.
 Oakland, Iowa

We have audited the accompanying Statements of Financial Position of Hungry Canyons Alliance, Inc. (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 Hungry Canyons Alliance, Inc. 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 Hungry Canyons Alliance, Inc.'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 5 and 12, 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Hungry Canyons Alliance, Inc. taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, 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.

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

August 6, 2004
 West Des Moines, Iowa

HUNGRY CANYONS ALLIANCE, INC.

Statements of Financial Position

June 30,

Assets

	<u>2004</u>	<u>2003</u>
Current Assets		
Cash and Cash Equivalents	\$ 1,926,453	1,956,758
Certificates of Deposit	766,139	770,233
Receivables		
Loess Hills Development and Conservation Authority	--	12
Total Current Assets	<u>2,692,592</u>	<u>2,727,003</u>
Property and Equipment		
Equipment	10,908	13,249
Accumulated Depreciation	(6,297)	(10,097)
Net Property and Equipment	<u>4,611</u>	<u>3,152</u>
 Total Assets	 <u>\$ 2,697,203</u>	 <u>2,730,155</u>

Liabilities and Net Assets

Current Liabilities		
Accounts Payable	\$ 134	56
Appropriated Structure Costs	968,927	972,891
Total Current Liabilities	<u>969,061</u>	<u>972,947</u>
Net Assets		
Unrestricted		
Invested in Property and Equipment	4,611	3,152
Undesignated	166,295	149,199
	<u>170,906</u>	<u>152,351</u>
Temporarily Restricted		
Interest Funds	164,179	254,319
State Funds	1,393,057	1,350,538
	<u>1,557,236</u>	<u>1,604,857</u>
 Total Net Assets	 <u>1,728,142</u>	 <u>1,757,208</u>
 Total Liabilities and Net Assets	 <u>\$ 2,697,203</u>	 <u>2,730,155</u>

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

HUNGRY CANYONS ALLIANCE, INC.

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						
Federal Contracts	\$ --	856,762	856,762	--	137,179	137,179
State Appropriations	--	400,000	400,000	--	--	--
County Support	35,000	--	35,000	40,000	--	40,000
Interest	1,853	44,245	46,098	2,147	61,811	63,958
Miscellaneous	1,454	--	1,454	1,082	--	1,082
Temporarily Restricted Funds						
Released from Restrictions	1,348,628	(1,348,628)	--	256,680	(256,680)	--
Total Support and Revenue	1,386,935	(47,621)	1,339,314	299,909	(57,690)	242,219
Expenses						
Federal Structures	809,464	--	809,464	113,402	--	113,402
County Structures	312,143	--	312,143	53,736	--	53,736
Small Structures	87,587	--	87,587	(13,300)	--	(13,300)
Other Program Expense	10,400	--	10,400	17,040	--	17,040
Research and Development	14,938	--	14,938	2,380	--	2,380
Administrative Salaries and Fees	115,000	--	115,000	105,000	--	105,000
Lobbying Fees	7,500	--	7,500	7,500	--	7,500
Depreciation Expense	1,107	--	1,107	849	--	849
Other Management and General Expenses	10,241	--	10,241	4,319	--	4,319
Total Expenses	1,368,380	--	1,368,380	290,926	--	290,926
Increase (Decrease) in Net Assets	18,555	(47,621)	(29,066)	8,983	(57,690)	(48,707)
Net Assets - Beginning of Year	152,351	1,604,857	1,757,208	143,368	1,662,547	1,805,915
Net Assets - End of Year	\$ 170,906	1,557,236	1,728,142	152,351	1,604,857	1,757,208

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

HUNGRY CANYONS ALLIANCE, INC.

Statements of Cash Flows

Years Ended June 30,

	<u>2004</u>	<u>2003</u>
Cash Flows from Operating Activities		
Decrease in Net Assets	\$ (29,066)	(48,707)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities		
Charges to Operations Not Requiring Cash		
Depreciation	1,107	849
Gain on Disposal of Equipment	--	(61)
(Increase) Decrease in		
Certificates of Deposit	4,094	11,435
Receivables	12	863
Increase (Decrease) in		
Appropriated Structure Costs	(3,964)	(668,060)
Accounts Payable, Accrued Expenses, and Other Liabilities	78	(81,093)
Net Cash Flows from Operations	<u>(27,739)</u>	<u>(784,774)</u>
Cash Flows from Investing Activities		
Proceeds from Disposal of Equipment	--	350
Equipment Acquired with Cash	<u>(2,566)</u>	<u>(2,097)</u>
Net Cash Flows from Investing	<u>(2,566)</u>	<u>(1,747)</u>
Net Decrease in Cash	(30,305)	(786,521)
Cash Balances - Beginning of Year	<u>1,956,758</u>	<u>2,743,279</u>
Cash Balances - End of Year	<u>\$ 1,926,453</u>	<u>1,956,758</u>

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

HUNGRY CANYONS ALLIANCE, INC.

Notes to Financial Statements

June 30, 2004 and 2003

1. Nature of Activities and Summary of Significant Accounting Policies

Hungry Canyons Alliance, Inc. is a private nonprofit corporation organized under Chapter 504(A), Code of Iowa 1981. The primary focus of the Organization is to protect the loess soils region of western Iowa from stream channel degradation. The Organization provides demonstrations, conducts research in effective methods, and provides financial and technical assistance for streambed stabilization projects in twenty-two counties.

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

Federal projects, awarded through the Hungry Canyons Alliance, Inc., receive federal funding for infrastructure protection through an approved cooperative agreement with the U. S. Department of Agriculture-Natural Resources Conservation Service. Federal awards and State appropriations provide the county cost-share for construction of stream control structures throughout the loess soils region of western Iowa.

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 Hungry Canyons Alliance, Inc., 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 representatives from each county served and are appointed by the County Board of Supervisors annually.

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 Hungry Canyons Alliance, Inc.'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. The Organization's federal contracts are administered on a cost reimbursement basis. County and small structure expenses are recorded when those costs are appropriated to particular projects. State appropriations, as well as interest earned on such appropriations, in excess of related project costs are recorded as temporarily restricted net assets until those funds are expended or appropriated.

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 purchased 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 federal contracts and state legislative appropriations. 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. The Organization's temporarily restricted net assets consists of state appropriations and interest earned on such appropriations, which are to be used for streambed stabilization projects that have not yet been approved or appropriated.

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. Certificates of Deposits

At June 30, 2004 and 2003, the Organization had funds invested in certificates of deposit as follows:

	Maturity Date	Interest Rate	Amount Including Accrued Interest	
			2004	2003
Nine-Month Certificate	8-9-04	2.30%	\$ 766,139	--
Twelve-Month Certificate	8-9-03	3.00%	--	770,233
			<u>\$ 766,139</u>	<u>770,233</u>

3. Appropriated Structure Costs

The Organization has approved various projects with local counties for soil stabilization projects. When these projects are approved, the cost is recorded as an appropriated expense. The funds are then paid when the Organization receives notice that the project is complete. At June 30, 2004, the Organization had \$968,927 (\$972,891 in 2003) of unpaid appropriated structure costs.

4. 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. performs various duties, as follows: (1) Assists in the job description, salary determination and hiring of a project director for Hungry Canyons Alliance, Inc.; (2) Provides training, technical assistance, office space and some equipment for use by the project director; (3) Provides supervision and evaluation of performance of the project director; and (4) Provides management of and accounting services for the Hungry Canyons Alliance, Inc. funds. Pursuant to this management agreement, the Organization made payments to Golden Hills Resource Conservation and Development, Inc. for administrative duties and payroll reimbursements in the amount of \$115,000 for the year ended June 30, 2004 (\$105,000 in 2003).

HUNGRY CANYONS ALLIANCE, INC.

Budgetary Comparison Schedule

Year Ended June 30, 2004

	Budget	Actual	Budget Variance Over (Under)
Support and Revenue			
Federal Contracts	\$ 809,464	809,464	--
State Appropriations	400,000	400,000	--
County Support	37,500	35,000	(2,500)
Interest	42,711	46,098	3,387
Miscellaneous	--	1,454	1,454
Total Support and Revenue	<u>1,289,675</u>	<u>1,292,016</u>	<u>2,341</u>
Expenses			
Federal Funds			
Federal Structures	809,464	809,464	--
State Funds			
Administrative Expenses	20,000	20,000	--
Aerial Stream Video Reconnaissance	30,000	10,400	(19,600)
Research and Development	10,000	14,938	4,938
Video Development	20,000	--	(20,000)
State Structures	340,283	340,283	--
Interest Funds			
Administrative Expenses	95,000	95,000	--
Federal Reimbursement of Administrative Expenses	(47,298)	(47,298)	--
Road Signs	2,000	--	(2,000)
Small Structures	63,411	63,411	--
Other Funds			
Conferences and Training	1,000	--	(1,000)
Insurance	100	85	(15)
Miscellaneous	250	466	216
Services to Counties	5,000	--	(5,000)
Meeting and Travel	2,000	1,507	(493)
Subscriptions/Books/Media	250	--	(250)
Supplies and Equipment	4,000	3,125	(875)
Lobbying Trips	5,000	5,124	124
Lobbyist	7,500	7,500	--
Professional Fees	2,500	2,500	--
Total Expenses	<u>1,370,460</u>	<u>1,326,505</u>	<u>(43,955)</u>
Decrease in Net Assets	(80,785)	(34,489)	46,296
Net Assets - Beginning of Year	<u>1,757,208</u>	<u>1,757,208</u>	<u>--</u>
Net Assets - End of Year	<u>\$ 1,676,423</u>	<u>1,722,719</u>	<u>46,296</u>
Decrease in Net Assets - Budget Basis		\$ (34,489)	
Appropriated Structure Costs - Beginning of Year		972,891	
Appropriated Structure Costs - End of Year		(968,927)	
Capital Expenditures Included in Budgeted Expenses		2,566	
Depreciation Expense		<u>(1,107)</u>	
Decrease in Net Assets - GAAP Basis		<u>\$ (29,066)</u>	

SEE INDEPENDENT AUDITOR'S REPORT

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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
Hungry Canyons Alliance, Inc.
Oakland, Iowa

We have audited the financial statements of Hungry Canyons Alliance, Inc. 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 Hungry Canyons Alliance, Inc.'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 Hungry Canyons Alliance, Inc.'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

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Hungry Canyons Alliance, Inc.
Oakland, Iowa

Compliance

We have audited the compliance of Hungry Canyons Alliance, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. Hungry Canyons Alliance, Inc.'s major federal program is identified in the Summary of Independent Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Hungry Canyons Alliance, Inc.'s management. Our responsibility is to express an opinion on Hungry Canyons Alliance, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hungry Canyons Alliance, Inc.'s compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Hungry Canyons Alliance, Inc.'s compliance with those requirements.

In our opinion, Hungry Canyons Alliance, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control over Compliance

The management of Hungry Canyons Alliance, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hungry Canyons Alliance, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Page Two
Report on Compliance with Requirements Applicable to Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of 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 entities.

Meriwether Wilson and Company, P.L.C.

MERIWETHER, WILSON AND COMPANY, P.L.C.
Certified Public Accountants

August 6, 2004
West Des Moines, Iowa

HUNGRY CANYONS ALLIANCE, INC.

Schedule of Expenditures of Federal Awards

July 1, 2003 through June 30, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title	Grant or Award Number	Federal CFDA Number	Period of Grant	Program or Award Amount	Expenditures
U.S. Department of Agriculture Streambed Stabilization - Soil Conservation and Domestic Allotment Act of 1936	68-6114-2-185	10.902	8/27/02-12/31/05	\$ 760,000	\$ 445,541
	68-6114-3-200	10.902	8/13/03-12/31/06	1,140,000	411,221
	68-6114-4-200	10.902	6/17/04-12/31/07	1,140,000	--
Total Federal Awards					<u>\$ 856,762</u>

SEE INDEPENDENT AUDITOR'S REPORT

HUNGRY CANYONS ALLIANCE, INC.

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hungry Canyons Alliance, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations.

HUNGRY CANYONS ALLIANCE, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

- a. The type of auditor's report issued was unqualified.
- b. No material weaknesses or reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any noncompliance, which is material to the financial statements.
- d. No material weaknesses or reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with requirements applicable to each major program.
- f. The audit did not disclose any audit findings, which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section 510(a).
- g. The major program was as follows:
 - CFDA Number 10.902 – Soil Conservation and Domestic Allotment Act of 1936.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$500,000.
- i. Hungry Canyons Alliance, Inc. does not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

Reportable Conditions: None

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance: None

Reportable Conditions: None