

**LOESS HILLS ALLIANCE
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	3-4
Management's Discussion and Analysis	5-8
Financial Statements:	
Statements of Financial Position	10
Statements of Activities	11
Statements of Cash Flows	12
Notes to Financial Statements	13-15
Required Supplementary Information	
Budgetary Comparison Schedule	16
Report on Internal Control over Financial Reporting and on Compliance and Other Matters	17-18

October 13, 2005

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Loess Hills Alliance
Council Bluffs, IA

We have audited the accompanying statement of financial position of the Loess Hills Alliance (a nonprofit organization) as of June 30, 2005 and the related statements of activities and cash flows for the year 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 audit. The financial statements of Loess Hills Alliance for the year ended June 30, 2004 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated August 6, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Loess Hills Alliance as of June 30, 2005 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

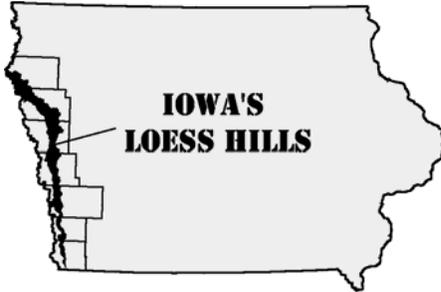
In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2005, on our consideration of Loess Hills Alliance's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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.

Continued...

Loess Hills Alliance
Independent Auditors' Report

The management's discussion and analysis and budgetary comparison information on pages 5 through 8 and 16, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.



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, 2005. We encourage readers to consider this information in conjunction with the LHA's financial statements which follow.

2005 Financial Highlights

- LHA state appropriations remained constant at \$200,000 for fiscal year 2005 as compared to fiscal year 2004.
- The LHA's total revenues for fiscal year 2005 increased by 8.9% as compared to fiscal year 2004, because of additional county support received from each of the seven Loess Hills counties.
- The LHA's budget expenditures for fiscal year 2005 were approximately \$282,600 less than anticipated, or 69 % under budget. Many of the programs and activities, approved in each of the committees, were unable to be completed within the fiscal year 2005 and were extended into fiscal year 2006. Associated cooperative agreements between agencies and individuals were also extended.
- The LHA's net assets increased by \$98,578, or approximately 41%, from June 30, 2004 to June 30, 2005.
- The LHA's total liabilities and net assets increased by \$103,514, or approximately 30 %, from June 30, 2004 to June 30, 2005. The increase in the LHA's total liabilities and net assets is due in large part to the support received from state appropriations in fiscal year 2005, continuing the state's commitment to the LHA's mission for the Loess Hills.

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. 13-15) 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 \$98,578 (41%) from fiscal year 2004 to fiscal year 2005.

Assets, Liabilities and Net Assets		
	June 30,	
	2005	2004
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 340,422	234,566
Net Property and Equipment	887	2,400
Prepaid Expense	-0-	829
Total Assets	<u>341,309</u>	<u>237,795</u>
Current Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	4,922	-0-
Other Accrued Expenses Payable	14	-0-
Total Liabilities	<u>4,936</u>	<u>-0-</u>
Net Assets		
Unrestricted		
Invested in Property and Equipment	887	2,400
Undesignated	8,864	9,650
	<u>9,751</u>	<u>12,050</u>

Temporarily Restricted	326,622	225,745
Total Net Assets	<u>336,373</u>	<u>237,795</u>
Total Liabilities & Net Assets	\$ 341,309	237,795

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,	
	2005	2004
Operating revenues:		
State appropriations	\$ 200,000	200,000
Other	18,253	2,327
Total operating revenues	<u>218,253</u>	<u>202,327</u>
Operating expenses:		
Economic Development	(55,119)	(22,700)
Executive Committee	(15,113)	(9,684)
I & E Committee	-0-	-0-
Protection Committee	(45,000)	(17,452)
Stewardship Committee	(8,144)	(64,492)
Miscellaneous	-0-	(1)
Provision for depreciation	(1,513)	(1,880)
Total operating expenses	<u>(124,889)</u>	<u>(116,209)</u>
Non-operating revenues:		
Interest earned	<u>5,214</u>	<u>2,738</u>
Increase (decrease) in Net Assets	98,578	88,856

Net Assets-Beginning of Year	<u>237,795</u>	<u>148,939</u>
Net Assets-End of Year	\$ <u>336,373</u>	<u>237,795</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 and the continuation of funding in 2005, the LHA has been able to reinstate a portion of their 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.

FINANCIAL STATEMENTS

**LOESS HILLS ALLIANCE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004**

ASSETS

	2005	2004
Current assets		
Cash and cash equivalents	\$ 340,422	234,566
Prepaid expenses	-	829
Total current assets	340,422	235,395
 Equipment		
Equipment	9,402	9,402
Less accumulated depreciation	8,515	7,002
Net property and equipment	887	2,400
 Total assets	\$ 341,309	237,795

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 4,922	-
Accrued expenses	14	-
Total current liabilities	4,936	-
 Net assets		
Unrestricted		
Invested in property and equipment	887	2,400
Undesignated	8,864	9,650
	9,751	12,050
 Temporarily Restricted		
State Funds	326,622	225,745
Total net assets	336,373	237,795
 Total liabilities and net assets	\$ 341,309	237,795

See Accompanying Notes to Financial Statement
LOESS HILLS ALLIANCE
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005			2004		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
State appropriations	\$ -	200,000	200,000	-	200,000	200,000
County support	-	17,000	17,000	-	-	-
Interest	-	5,214	5,214	-	2,738	2,738
Miscellaneous	1,225	28	1,253	2,085	242	2,327
Temporarily restricted funds						
Released from restrictions	121,365	(121,365)	0	114,454	(114,454)	-
Total support and revenue	122,590	100,877	223,467	116,539	88,526	205,065
Expenses						
Economic development	55,119	-	55,119	22,700	-	22,700
Executive committee	15,113	-	15,113	9,684	-	9,684
Protection committee	45,000	-	45,000	17,452	-	17,452
Stewardship committee	8,144	-	8,144	64,492	-	64,492
Depreciation	1,513	-	1,513	1,880	-	1,880
Miscellaneous	-	-	-	1	-	1
Total expenses	124,889	-	124,889	116,209	-	116,209
Change in net assets	(2,299)	100,877	98,578	330	88,526	88,856
Net assets, beginning of year	12,050	225,745	237,795	11,720	137,219	148,939
Net assets, end of year	\$ 9,751	326,622	336,373	12,050	225,745	237,795

See Accompanying Notes to Financial Statement
LOESS HILLS ALLIANCE
STATEMENTS OF CASH FLOWS
FOR THE YEARS JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 98,578	88,856
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,513	1,880
(Increase) decrease in:		
Prepaid expenses	829	(126)
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>4,936</u>	<u>(9,065)</u>
Net cash provided by operating activities	105,856	81,545
Cash and cash equivalents, beginning of year	<u>234,566</u>	<u>153,021</u>
Cash and cash equivalents, end of year	<u>\$ 340,422</u>	<u>234,566</u>

See Accompanying Notes to Financial Statement
LOESS HILLS ALLIANCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Nature of Activities – The Loess Hills Alliance is a private nonprofit corporation organized under Chapter 504(A), Code of Iowa in 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.

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 non-profit 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 cash flows are all organization-wide financial statements. They report information for all Loess Hills Alliance’s activities, which are in turn all deemed to be governmental activities. The Organization has no proprietary type activities.

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.

**LOESS HILLS ALLIANCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash Equivalents – For the purpose 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.

Concentration of Credit Risk – 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, prepaids, accounts payable, and accrued expenses approximate their fair values due to the short-term maturities of these financial instruments.

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.

Donated Facilities – The value of contributed facilities meeting the requirements for recognition in the financial statements was recorded at market rates. One county is contributing office space for use by the Organization in lieu of a cash contribution.

The market value of rent for this space was determined to be \$3,000 per year and is reported as County Support and as an Executive Committee expense.

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.

NOTE 2 COOPERATIVE AGREEMENT

For 2004, the Organization entered into a cooperative agreement with Golden Hills Resource Conservation and Development, Inc. Under this agreement, Golden Hill Resource Conservation and Development, Inc. agreed to provide management of Loess Hills Alliance funds including bookkeeping services, payroll services, and monthly and annual reporting. No agreement was signed for fiscal year 2005, however, there was a verbal understanding to continue with the agreement and such expenses were approved in the budget of Loess Hills Alliance. The Organization expensed \$3,802 for these services for the year ended June 30, 2005.

**LOESS HILLS ALLIANCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 3 RELATED PARTY TRANSACTION

Loess Hills Alliance received \$200,000 in passed through state support from Loess Hills Development and Conservation Authority for each of the years ended June 30, 2005 and 2004. Loess Hills Alliance is considered an affiliate of this governmental unit. Loess Hills also expensed \$2,000 in administrative support to this Organization for each of the years ended June 30, 2005 and 2004.

**LOESS HILLS ALLIANCE
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Budget Variance Favorable (Unfavorable)</u>
Support and Revenue			
State appropriations	\$ 200,000	200,000	-
County support	-	17,000	17,000
Interest	-	5,214	5,214
Miscellaneous	-	1,253	1,253
Total support and revenue	<u>200,000</u>	<u>223,467</u>	<u>23,467</u>

Expenses			
Economic development	99,696	55,119	44,577
Executive committee	24,100	15,113	8,987
Protection committee	103,333	45,000	58,333
Stewardship committee	136,403	8,144	128,259
Project drive	44,000	-	44,000
Depreciation	-	1,513	(1,513)
Total expenses	<u>407,532</u>	<u>124,889</u>	<u>282,643</u>
Change in net assets	(207,532)	98,578	306,110
Net assets, beginning of year	<u>207,532</u>	<u>237,795</u>	<u>30,263</u>
Net assets, end of year	\$ <u><u>-</u></u>	<u><u>336,373</u></u>	<u><u>336,373</u></u>

See accompanying independent auditors' report

October 13, 2005

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS

To the Board of Directors

Loess Hills Alliance
Oakland, IA

We have audited the financial statements of Loess Hills Alliance as of and for the year ended June 30, 2005, and have issued our report thereon dated October 13, 2005. 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*.

Continued...

Loess Hills Alliance
Report on Compliance and Other Matters

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.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of Loess Hills Alliance during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.