

**HUNGRY CANYONS ALLIANCE, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

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October 11, 2006

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Hungry Canyons Alliance, Inc.
Oakland, IA

We have audited the accompanying statement of financial position of the Hungry Canyons Alliance, Inc. (a nonprofit organization) as of June 30, 2006 and 2005, and the related statements of activities 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2006 and 2005, and the changes in its net assets 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 October 11, 2006, 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.

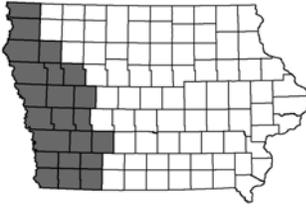
That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Continued...

Hungry Canyons Alliance, Inc.
Independent Auditors' Report

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 18, 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information included in the Schedule of Expenditures of Federal Awards required by *United States Office of Management and Budget (OMB) Circular A-133* 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 procedures applied in the audit of the basic financial statements, and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



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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, 2006. We encourage readers to consider this information in conjunction with the HCA's financial statements which follow.

2006 Financial Highlights

- HCA Federal appropriations remained approximately the same from fiscal year 2005 to fiscal year 2006.
- HCA state appropriations remained the same from fiscal year 2005 to fiscal year 2006.
- Excluding the funds available for state structures, the total of all other HCA budget expenditures for fiscal year 2006 was approximately \$90,752 less than anticipated, or 27% under budget.
- The HCA's net assets increased by 17.5%, or approximately \$222,690, from June 30, 2005 to June 30, 2006 due to a decrease in the number of streambed stabilization structures that were approved for cost share.
- The HCA's total liabilities and net assets increased by 5.1%, or approximately \$147,750, from June 30, 2005 to June 30, 2006. An increase in the HCA's total liabilities and net assets is due in large part because fewer streambed stabilization structures were completed in 2006 than in 2005.

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.14-17) 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 increased by 17.5%, or approximately \$222,690, from June 30, 2005 to June 30, 2006, because less available funds were obligated for new streambed stabilization structures. The number of obligations from state funds increased from \$700,272 in 2005 to \$156,572 in 2006. Construction of in-stream structures is the goal of the HCA.

Assets, Liabilities and Net Assets		
	2006	June 30, Restated
<u>2005</u>		
Current assets	\$ 1,854,872	
1,864,576		
Restricted assets	1,023,926	
1,014,900		
Grant Receivable	147,493	
Capital assets	4,465	
<u>3,531</u>		
Total assets	3,030,756	
2,883,007		
Current liabilities	\$ 1,536,001	
1,610,942		
Long-term debt	-0-	-0-
Total liabilities	<u>1,536,001</u>	
<u>1,610,942</u>		
Net assets:		
Invested in capital assets, net of related debt	4,465	
3,531		
Restricted:		
Non-expendable	1,224,526	
1,027,967		
Expendable	<u>155,356</u>	
<u>120,290</u>		
Total restricted assets	1,379,882	1,148,257
Unrestricted	<u>110,408</u>	
<u>120,277</u>		
Total net assets	<u>1,494,755</u>	
<u>1,272,065</u>		

2,883,007	Total liabilities & net assets	3,030,756
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Restricted assets increased by \$ 231,600 from fiscal 2005 to fiscal 2006 due to the decrease in the number of state structures obligated in fiscal year 2006 as compared to fiscal year 2005. 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		
	2006	June 30, Restated
<u>2005</u>		
Operating revenues:		
Federal Contracts Paid	\$ 1,248,783	
262,129		
State Appropriations	429,814	
407,291		
County Contributions	42,500	
40,000		
Other	<u>1,769</u>	
<u>1,771</u>		
Total operating revenues	<u>718,691</u>	
<u>711,191</u>		
Operating expenses:		
Administrative	(115,000)	(
115,000)		
General	(12,709)	(
12,831)		
Lobbying	(7,500)	(
7,500)		
Research	(55,058)	(
48,917)		
Federal Structures Completed	(1,188,571)	(
218,929)		
State Structures	(156,572)	(
700,272)		
Small Structures	(58,185)	(
98,614)		
Provision for Depreciation	<u>(1,469)</u>	(
<u>1,430)</u>		
Total operating expenses	<u>(1,595,064)</u>	
<u>(1,203,493)</u>		
Non-operating revenues:		
Interest Earned	94,888	56,225
Gain (loss) on disposal of equipment	<u>-0-</u>	<u>-0-</u>
Total non-operating revenues	<u>94,888</u>	<u>56,225</u>
Increase (decrease) in net assets	\$ (222,690)	(
436,077)		

Net Assets-Beginning of Year	1,272,065	1,708,142
Net Assets-End of Year	1,494,755	1,272,065

The increase in total liabilities and net assets of 5.1% (\$3,030,756 in 2006 up from \$2,883,007 in 2005) is a result of both an decrease in the number of structure applications received and approved (mentioned previously) and an increase in the number of structures not completed (mentioned below). The infrastructure cost-share paid to the counties from federal and/or state appropriations does not constitute any HCA, federal, or state 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. The variability and unpredictable nature associated with the timing of structure completions created the dramatic increase in federally-funded structures paid of \$1,188,571 in 2006 as compared to \$218,929 in 2005. Obligation of state structures decreased from \$700,272 in 2005 to \$156,572 in 2006 due to the fact that many structures are in progress, and the counties are hesitant to apply for more funds until they get some of the older projects finished. The small structure program is funded with interest earned from state funds to protect farmlands from gully erosion.

The following table lists the funds for county structure cost share that the HCA has administered during the fiscal years 2002 through 2006.

Year	Federal Funds Appropriated	State Funds Appropriated	County Fee	Total Contribution	Federal Funds % of Total
2002	\$ 800,000	\$ 441,667	\$ 55,000	\$ 1,296,667	0.62
2003	\$ 1,200,000	\$ -	\$ 40,000	\$ 1,240,000	0.97
2004	\$ 1,200,000	\$ 400,000	\$ 42,500	\$ 1,642,500	0.73
2005	\$ 1,190,400	\$ 400,000	\$ 42,500	\$ 1,632,900	0.73
2006	\$ 1,188,000	\$ 400,000	\$ 51,000	\$ 1,639,000	0.72
Total	\$ 5,578,400	\$ 1,641,667	\$ 231,000	\$ 7,451,067	0.75

Factors Affecting the HCA's Future

Overall, the HCA maintained 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 issue of priority 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 member 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.

FINANCIAL STATEMENTS

HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2006 AND 2005

	ASSETS	
	2006	Restated 2005
Current assets		
Cash and cash equivalents	\$ 1,854,872	1,864,576
Certificates of deposit	1,023,926	1,014,900
Grant receivable	147,493	-
Total current assets	3,026,291	2,879,476
Property and Equipment		
Equipment	13,661	11,258
Less accumulated depreciation	9,196	7,727
Net property and equipment	4,465	3,531
Total assets	\$ 3,030,756	2,883,007

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 144,335	452
Deferred income	33,000	27,500
Appropriated structure costs	1,358,666	1,582,990
Total current liabilities	1,536,001	1,610,942
Net assets		
Unrestricted		
Invested in property and equipment	4,465	3,531
Undesignated	110,408	120,277
	114,873	123,808
Temporarily Restricted		
Interest Funds	155,356	120,290
State Funds	1,224,526	1,027,967
	1,379,882	1,148,257
Total net assets	1,494,755	1,272,065
Total liabilities and net assets	\$ 3,030,756	2,883,007

See Accompanying Notes to Financial Statement
HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006			Restated 2005		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Federal contracts	\$ -	1,248,783	1,248,783	-	262,129	262,129
State appropriations	-	429,814	429,814	-	407,291	407,291
County support	42,500	-	42,500	40,000	-	40,000
Interest	1,638	93,250	94,888	1,500	54,725	56,225
Miscellaneous	1,769	-	1,769	1,771	-	1,771
Temporarily restricted funds released from restrictions	1,540,222	(1,540,222)	-	1,133,124	(1,133,124)	-
Total support and revenue	<u>1,586,129</u>	<u>231,625</u>	<u>1,817,754</u>	<u>1,176,395</u>	<u>(408,979)</u>	<u>767,416</u>
Expenses						
Federal structures	1,188,571	-	1,188,571	218,929	-	218,929
County structures	156,572	-	156,572	700,272	-	700,272
Small structures	58,185	-	58,185	98,614	-	98,614
Other program expense	1,624	-	1,624	3,995	-	3,995
Research and development	55,058	-	55,058	48,917	-	48,917
Administrative salaries and fees	115,000	-	115,000	115,000	-	115,000
Lobbying fees	7,500	-	7,500	7,500	-	7,500
Depreciation expense	1,469	-	1,469	1,430	-	1,430
Other management and general Expenses	11,085	-	11,085	8,836	-	8,836
Total expenses	<u>1,595,064</u>	<u>-</u>	<u>1,595,064</u>	<u>1,203,493</u>	<u>-</u>	<u>1,203,493</u>
Increase (decrease) in net assets	(8,935)	231,625	222,690	(27,098)	(408,979)	(436,077)
Net assets, beginning of year, Restated	<u>123,808</u>	<u>1,148,257</u>	<u>1,272,065</u>	<u>150,906</u>	<u>1,557,236</u>	<u>1,708,142</u>
Net assets, end of year	<u>\$ 114,873</u>	<u>1,379,882</u>	<u>1,494,755</u>	<u>123,808</u>	<u>1,148,257</u>	<u>1,272,065</u>

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	Restated 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 222,690	(436,077)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,469	1,430
(Increase) Decrease in :		
Receivables	(147,493)	-
Increase (Decrease) in:		
Appropriated structure costs	(224,324)	614,063
Accounts payable, accrued expenses	149,383	7,818
Net cash provided by operating activities	1,725	187,234
Cash Flows from Investing Activities		
Purchase of investments	(1,038,085)	(1,523,174)
Proceeds from sale of investments	1,029,059	1,274,413
Purchase of equipment	(2,403)	(350)
Net cash used by investing activities	(11,429)	(249,111)
Net change in cash	(9,704)	(61,877)
Cash and cash equivalents, beginning of year	1,864,576	1,926,453
Cash and cash equivalents, end of year	\$ 1,854,872	1,864,576

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Nature of Activities – The Hungry Canyons Alliance is a private nonprofit corporation organized under Chapter 504(A), Code of Iowa in 1981. The Organization's primary focus 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.

The accompanying financial statements, which include all programs administered by Hungry Canyons 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 representatives from each county served and are appointed by the County Board of Supervisors annually.

The statements of financial position, activities, and cash flows are all organization-wide financial statements. They report information for all Hungry Canyons Alliance, Inc.'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.

HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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.

Grant Receivable – Grant receivable represents amounts due from the federal government for grants and reimbursement.

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.

Deferred Revenue – Deferred revenue represents county membership fees collected for the next fiscal period.

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 effect on the Organization's programs and activities. The Organization also receives federal and county funding.

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.

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 streambed stabilization projects that have not been approved or appropriated.

**HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 2 CERTIFICATES OF DEPOSIT

At June 30, 2006 and 2005, the Organization had funds invested in certificates of deposit as follows:

	Maturity Date	Interest Rate	Amount Including Accrued Interest	
			2006	2005
Twelve-Month Certificate	08-09-05	2.35 %	\$ -	510,533
Twelve-Month Certificate	02-28-06	3.30 %	-	253,097
Twelve-Month Certificate	05-09-06	3.50 %	-	251,270
Twelve-Month Certificate	08-09-06	4.00%	518,044	-
Twelve-Month Certificate	02-28-07	4.85 %	254,066	-
Twelve-Month Certificate	05-09-07	5.10 %	251,816	-
			<u>\$ 1,023,926</u>	<u>1,014,900</u>

NOTE 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. The Organization had appropriated structure costs of \$1,358,666 at June 30, 2006, and \$1,582,900 at June 30, 2005.

NOTE 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 Hill 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 years ended June 30, 2006 and 2005.

NOTE 5 RELATED PARTY TRANSACTIONS

Hungry Canyons Alliance received \$400,000 in passed through state support from Loess Hills Development and Conservation Authority for each of the years ended June 30, 2006 and 2005. Hungry Canyons Alliance is considered an affiliate of this

governmental unit. Hungry Canyons Alliance also expensed \$10,000 in administrative support to this Organization for each of the years ended June 30, 2006 and 2005.

**HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

NOTE 6 RESTATEMENT

The financial statements for the year ended June 30, 2005 have been restated to reflect deferred revenue from county membership fees. The restatement decreased beginning net assets by \$20,000 and decreased the change in net assets by \$7,500 for the year then ended.

HUNGRY CANYONS ALLIANCE, INC.
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006

	Budget	Actual	Budget Variance Favorable (Unfavorable)
Support and Revenue			
Federal contracts	\$ 1,248,571	1,248,783	212
State contracts	400,000	400,000	-
Other State support	30,000	29,814	(186)
County support	17,500	42,500	25,000
Interest	-	94,888	94,888
Miscellaneous	-	1,769	1,769
Total support and revenue	<u>1,696,071</u>	<u>1,817,754</u>	<u>121,683</u>
Expenses			
Federal funds			
Administrative expenses	58,500	50,000	8,500
Federal structures	1,188,571	1,188,571	-
State funds			
State structures	1,839,495	156,572	1,682,923
Administrative expenses	20,000	20,000	-
Research and development	12,000	8,975	3,025
Weir velocity study	60,000	27,684	32,316
Aerial stream video reconnaissance	10,000	1,624	8,376
Video development	20,000	2,400	17,600
Fish passage study	13,573	-	13,573
Nickpoint study	16,000	15,999	1
Stream profile surveys	20,000	-	20,000
Road signs	2,000	-	2,000
Interest funds			
Small structures	50,000	58,185	(8,185)
Other funds			
Administrative expenses	36,500	45,000	(8,500)
Insurance	100	85	15
Supplies	4,000	476	3,524
Meetings and travel	3,000	2,834	166
Subscriptions	250	84	166
Miscellaneous	250	465	(215)
Lobbyist	7,500	7,500	-
Lobbying trips	5,000	5,628	(628)
Services to counties	2,000	1,513	487
Depreciation	-	1,469	(1,469)
Total expenses	<u>3,368,739</u>	<u>1,595,064</u>	<u>1,773,675</u>
Change in net assets	(1,672,668)	222,690	1,895,358
Net assets, beginning of year	<u>1,779,254</u>	<u>1,272,065</u>	<u>(507,189)</u>
Net assets, end of year	<u>\$ 106,586</u>	<u>1,494,755</u>	<u>1,388,169</u>

See accompanying independent auditors' report
HUNGRY CANYONS ALLIANCE, INC.
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
YEAR JUNE 30, 2006

Grantor/Program	Grant or Award Number	CFDA Number	Program Expenditures
Direct:			
US Department of Agriculture:			
Steambed Stabilization – Soil			
Conservation and Domestic			
Allotment Act of 1936	68-6114-3-200	10.902	\$ 505,765
	68-6114-4-200	10.902	222,314
	68-6114-5-44	10.902	520,704
			\$ 1,248,783

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Hungry Canyon Alliance and its presentation 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 Non-Profit Organizations*.

See accompanying independent auditors' report

October 11, 2006

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*

To the Board of Directors
Hungry Canyons Alliance, Inc.
Oakland, IA

We have audited the financial statements of Hungry Canyons Alliance, Inc. as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated October 11, 2006. 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.

Continued...

Hungry Canyons Alliance, Inc.
Report on Compliance and Other Matters

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.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of Hungry Canyons Alliance, Inc. 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.

October 11, 2006

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

To the Board of Directors
Hungry Canyons Alliance, Inc.
Oakland, IA

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, 2006. Hungry Canyons Alliance, Inc.'s major federal program is identified in 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 Non-Profit 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, 2006.

Continued...

Hungry Canyons Alliance, Inc.
Report on Compliance Applicable to its Major Program

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.

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.

HUNGRY CANYONS ALLIANCE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR JUNE 30, 2006

Part I: Summary of the Independent Auditors' Results

- a. The type of auditors' 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 its major program were disclosed by the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with requirements applicable to its 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 \$300,000.
- i. Hungry Canyons Alliance, Inc. does not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

Reportable Conditions: None

Instances of Non-Compliance: None

Part III: Findings and Questioned Costs for Federal Awards

Reportable Conditions: None

Instances of Non-Compliance: None