

**LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

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November 4, 2008

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Loess Hills Development and Conservation Authority
Oakland, IA

We have audited the accompanying statements of financial position of Loess Hills Development and Conservation Authority (a nonprofit organization) as of June 30, 2008 and 2007, and the related statement 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 General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

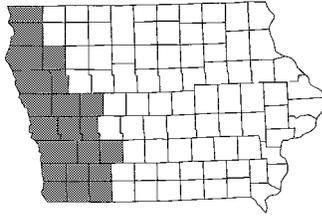
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Loess Hills Development and Conservation Authority as of June 30, 2008 and 2007, and the changes in its nets assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 2008, on our consideration of Loess Hills Development and Conservation Authority'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...

November 4, 2008
Loess Hills Development and Conservation Authority
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.



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MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Loess Hills Development and Conservation Authority (LHDCA) provides this Management's Discussion and Analysis of the LHDCA's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the LHDCA's financial statements which follow.

2008 Financial Highlights

- LHDCA appropriations from the State of Iowa totaled \$580,000 for fiscal year 2008, which was a reduction of \$20,000 from the fiscal year 2007 appropriation of \$600,000.
- State appropriations for fiscal year 2008 included a requirement restricting administrative expenses to 5% of the total appropriation from this fund, which was passed through to and implemented by the two related organizations, the Hungry Canyons Alliance, Inc. and the Loess Hills Alliance.
- The LHDCA's budget expenditures for fiscal year 2008 were approximately \$ 2,812 less than anticipated, or 22.7% under budget.
- The LHDCA's net assets increased by approximately .9 %, or \$ 1,945, from June 30, 2007 to June 30, 2008.

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 LHDCA'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 LHDCA, on a comparative basis, including resources held by the LHDCA but restricted for specific purposes by legislation or by the LHDCA's Board of Directors.

Notes to Financial Statements (pgs. 13-15) provide additional information essential to a full understanding of the data provided in the basic financial statements.

Reporting the LHDCA's Financial Activities

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

One of the most important questions asked regarding the LHDCA's finances is "Was the LHDCA 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 LHDCA'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 LHDCA's net assets, which is the difference between assets and liabilities, as one way to measure the LHDCA's financial position. Over time, increases or decreases in the LHDCA's net assets are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in appropriations and legislation, 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 all activities. 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 LHDCA

As noted earlier, net assets may serve over time as a useful indicator of financial position. The LHDCA's net assets increased by \$ 1,945 or .9 % from fiscal year 2007 to fiscal year 2008.

Assets, Liabilities and Net Assets		
	June 30,	
	2008	2007
Assets		
Current Assets		
Cash and Equivalents	\$ 25,942	23,240
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 1,668	911
Net Assets		
Unrestricted	24,274	22,329
Total Liabilities and Net Assets	\$ 25,942	23,240

State appropriations are distributed to the LHDCA on a quarterly basis and passed through to the Hungry Canyons Alliance, Inc. and the Loess Hills Alliance upon receipt of funds. No state appropriations are held by the LHDCA.

Suspension of state funding in 2003, negatively impacted the programs sponsored by the Hungry Canyons Alliance, Inc. and the Loess Hills Alliance 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 through 2008, both organizations have been able to reinstate a portion of the programs jeopardized during the suspension of state funding. Suspension of state funding negatively impacted programs largely because of the inability of the organizations to obtain matching or complimentary funds from other sources without dollars of match from the state. Thus some programs were not able to be funded.

The LHDCA requests an administrative fee of 1% of the yearly appropriation from both the Hungry Canyons Alliance, Inc. and the Loess Hills Alliance for administrative and general expenses of the LHDCA and auditing expenses for all three organizations: the LHDCA, Hungry Canyons Alliance, Inc. and the Loess Hills Alliance. The Hungry Canyons Alliance also provides an administrative fee to the LHDCA for federal appropriations at a .5% of the yearly appropriation. An independent audit is performed for each organization after the end of each fiscal year, and filed with the Auditor's Office, State of Iowa.

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

Revenues, Expenses and Changes in Net Assets		
	June 30,	
	2008	2007
Operating revenues:		
State Appropriations	\$ 580,000	600,000
State Appropriations Passed through to Related Organizations	(580,000)	(600,000)
Net State Appropriations	0	0
Interest	1,458	2,262
Administrative Support	10,060	6,000
Total support and revenue	11,518	8,262
Operating expenses:		
Administrative Fees	(3,523)	(2,572)
Other Management and General Expenses	(50)	(135)
Professional Fees	(6,000)	(5,800)
Total operating expenses	(9,573)	(8,507)
Increase (decrease) in net assets	1,945	(245)
Net Assets-Beginning of Year	22,329	22,574
Net Assets-End of Year	\$ 24,274	22,329

Factors Affecting the LHDCA's Future

The LHDCA 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 LHDCA Board of Directors. Some of the realities that may potentially become challenges for the LHDCA are:

- Ensuring that infrastructure protection, rural development and natural resource protection for the Loess Hills and western Iowa remain important issues in the eyes of federal, state, county, and local governments.
- Reductions in state appropriations.

Contacting the LHDCA's Financial Management

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

FINANCIAL STATEMENTS

LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS

	2008	2007
Current assets		
Cash and cash equivalents	\$ <u>25,942</u>	<u>23,240</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 1,668	911
Net assets		
Unrestricted	<u>24,274</u>	<u>22,329</u>
Total liabilities and net assets	\$ <u>25,942</u>	<u>23,240</u>

See Accompanying Notes to Financial Statement

LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Support and Revenue		
State appropriations	\$ 580,000	600,000
State appropriations passed through to related organizations	(580,000)	(600,000)
Net state appropriations	-	-
Administrative support	10,060	6,000
Interest	1,458	2,262
Total support and revenue	11,518	8,262
 Expenses		
Administrative fees	3,523	2,572
Professional fees	6,000	5,800
Other management and general expenses	50	135
Total expenses	9,573	8,507
 Increase (decrease) in net assets	 1,945	 (245)
Net assets, beginning of year	22,329	22,574
Net assets, end of year	\$ 24,274	22,329

See Accompanying Notes to Financial Statement

**LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS JUNE 30, 2008 AND 2007**

	2008	2007
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 1,945	(245)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Increase (decrease) in accounts payable	757	(2,614)
Net cash provided (used) by operating activities	2,702	(2,859)
Cash and cash equivalents, beginning of year	23,240	26,099
Cash and cash equivalents, end of year	\$ 25,942	23,240

See Accompanying Notes to Financial Statement

NOTES TO FINANCIAL STATEMENTS
LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Nature of Activities – The Loess Hills Development and Conservation Authority was established by the Iowa General Assembly in 1993 under Chapter 161D, Code of Iowa. The mission of the Authority is to develop and coordinate plans for projects related to the unique natural resources, rural development and infrastructure problems of the twenty-two counties in the deep loess soils region of Western Iowa.

The authority administers the Loess Hills Development and Conservation Fund of the State Treasury. Proceeds from this fund are then passed through to and used by the Authority's two related organizations, the Hungry Canyons Alliance, Inc. and the Loess Hill Alliance, for the furtherance of the Authority's mission.

The accompanying financial statements, which include all programs administered by Loess Hills Development and Conservation Authority, 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 one representative appointed by the board of supervisors of each county participating in the Authority.

The statements of financial position, activities, and cash flows are all organization-wide financial statements. They report information for all Loess Hills Development and Conservation Authority'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. 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 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.

LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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 with a 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 effect 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, 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.

Principal Programs – The following is a summary of the principal programs administered by the Authority:

Hungry Canyons Alliance, Inc. – This Organization provides demonstrations, conducts research in effective methods, and provides financial and technical assistance for streambed stabilization projects in the loess soils region.

Loess Hills Alliance – This 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.

NOTE 2 COOPERATIVE AGREEMENT

The Organization enters into, on an annual basis, a cooperative agreement with Golden Hills Resource Conservation and Development, Inc. Under this agreement, Golden Hills Resource Conservation and Development, Inc. performs various duties, as follows: (1) administers the payments for the Authority’s expenses; (2) holds semi-annual meetings of the Executive Committee at which expenditures of the projects are reviewed and approved; (3) reviews semi-annual activity and financial reports of the Authority, and; (4) arranges for, prepares for, and reviews the annual audit and related reports. The Organization recognized expenses totaling \$3,523 and \$2,572 for these services for the years ended June 30, 2008 and 2007, respectively.

LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 3 RELATED PARTY TRANSACTIONS

The Organization passed through state appropriations of \$580,000 for 2008 and \$600,000 for 2007 to its affiliate organizations and received \$10,060 for 2008 and \$6,000 for 2007 in administrative support from these organizations.

LOESS HILLS DEVELOPMENT AND CONSERVATION AUTHORITY
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR JUNE 30, 2008

	Budget	Actual	Budget Variance Favorable (Unfavorable)
Support and Revenue			
State appropriations	\$ 580,000	580,000	-
State appropriations passed through to related organizations	(580,000)	(580,000)	-
Administrative support	4,260	10,060	5,800
Interest	-	1,458	1,458
Total support and revenue	4,260	11,518	7,258
 Expenses			
Administrative fees	6,000	3,523	2,477
Professional fees	6,000	6,000	-
Other management and general expenses	385	50	335
Total expenses	12,385	9,573	2,812
 Change in net assets	(8,125)	1,945	10,070
 Net assets, beginning of year	18,189	22,329	-
 Net assets, end of year	\$ 10,064	24,274	10,070

See Accompanying Independent Auditors' Report

November 4, 2008

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
Loess Hills Development and Conservation Authority
Oakland, IA

We have audited the financial statements of Loess Hills Development and Conservation Authority as of and for the year ended June 30, 2008 and 2007, and have issued our report thereon dated November 10, 2008. 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 Development and Conservation Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the loess Hills Development and Conservation Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Loess Hills Development and Conservation Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Loess Hills Development and Conservation Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Loess Hills Development and Conservation Authority's financial statements that is more than inconsequential will not be prevented or detected by Loess Hills Development and Conservation Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Loess Hills Development and Conservation Authority's internal control.

Continued.....

November 4, 2008
Loess Hills Development and Conservation Authority
Report on Internal Control

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Loess Hills Development and Conservation Authority's financial statements are free of material misstatements, 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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information 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 Development and Conservation Authority 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.

November 10, 2008

Loess Hills Development and Conservation Authority
Attn: Mary Lou Goettsch
P.O. Box 189
Oakland, IA 51560

Dear Mary Lou:

Enclosed are “draft” copies of each of the audited financial statements for the Loess Hills Development and Conservation Authority, Loess Hills Alliance, and Hungry Canyons Alliance for the year ended June 30, 2008. Please review and let me know if we need to make any changes and how many copies are needed. I still need the MD&A for Loess Hills Development and Conservation Authority and Loess Hills Alliance.

Also enclosed are management representation letters. I need these signed by an officer and by you and returned to me in the enclosed envelope for our files.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

November 4, 2008

To the Board of Directors
Loess Hills Development and Conservation Authority
712 S Hwy 6 Box 189
Oakland, IA 51560

We have audited the financial statements of Loess Hills Development and Conservation Authority as of June 30, 2008, and have issued our report thereon dated November 4, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 22, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Loess Hills Development and Conservation Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Loess Hills Development and Conservation Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed our audit according to the planned scope and timing previously communicated to you in our meeting about planned matters on September 8, 2008.

Loess Hills Development and Conservation Authority
Communication with Those Charged with Governance

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Loess Hills Development and Conservation Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant accounting estimates.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statements users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Certain misstatements were corrected by management during the current period. Management has determined that the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 4, 2008.

Loess Hills Development and Conservation Authority
Communication with Those Charged with Governance

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing matters, similar to obtaining a “second opinion” on certain situations. If consultation involves application of an accounting principle to the Organization’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultation has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Loess Hills Development and Conservation Authority and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain

DM/jb