

HUNGRY CANYONS ALLIANCE, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	3-4
Management's Discussion and Analysis	5-9
Financial Statements	
Statements of Financial Position	11
Statements of Activities and Changes in Net Assets	12
Statements of Cash Flows	13
Notes to Financial Statements	14-16
Required Supplementary Information:	
Budgetary Comparison Schedule	17
Schedule of Expenditures of Federal Awards	18
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19-20
Report on Compliance with Requirements Applicable to Its Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	21-22
Schedule of Findings and Questioned Costs	23

November 4, 2008

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, 2008 and 2007, 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, 2008 and 2007, 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.

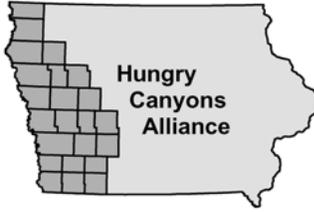
In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 2008, on our consideration of Hungry Canyons Alliance, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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...

November 4, 2008
Hungry Canyons Alliance, Inc.
Independent Auditors' Report

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 17, 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, 2008. We encourage readers to consider this information in conjunction with the HCA's financial statements which follow.

2008 Financial Highlights

- HCA Federal appropriations were increased from \$0 in FY2007 to \$851,994 in FY2008 due to restored earmark funding from the federal legislature.
- HCA State appropriations decreased slightly from \$400,000 in FY2007 to \$ 386,667 in FY2008.
- Excluding the funds available for state and small structures, the total of all other HCA budget expenditures for fiscal year 2008 was approximately \$68,739 less than anticipated, or 24% under budget. The budget represents the maximum amount that could be used for non-structural projects. The fact that the HCA was under budget is largely due to ongoing research and education projects that were not completed. These anticipated project expenditures will be carried over to FY09.
- The HCA's total restricted assets (funds available for structures) increased by \$30,844 from June 30, 2007 to June 30, 2008, or approximately 2.2 %, because less was paid out for completed structures than new structures were obligated.
- The HCA's total liabilities and net assets decreased by \$106,484, or approximately 3.8%, from June 30, 2007 to June 30, 2008 because the HCA's liabilities have decreased by \$149,389, or approximately 12%, and the HCA's assets have only increased \$42,905, or approximately 2.8%. Stated another way, the net number of structures slated to receive HCA federal and state funds decreased in FY2008.

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.20-27) 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 \$42,905, or approximately 2.8%, from June 30, 2007 to June 30, 2008, because less available funds were obligated for new streambed stabilization structures. The number of obligations from state funds decreased from \$616,200 in 2007 to \$328,016 in 2008 due to the fact that there was federal funding available. Construction of in-stream structures is the goal of the HCA.

Assets, Liabilities and Net Assets		
	June 30,	
	2008	2007
Current assets	\$ 1,748,952	1,846,000
Restricted assets	1,022,619	1,030,799
Grant Receivable	-0-	-0-
Capital assets	<u>1,726</u>	<u>2,982</u>
Total assets	2,773,297	2,879,781
Current liabilities	\$ 1,242,024	1,391,413
Long-term debt	<u>-0-</u>	<u>-0-</u>
Total liabilities	1,242,024	1,391,413
Net assets:		
Invested in capital assets, net of related debt	1,726	2,982
Restricted:		
Non-expendable	1,152,952	1,125,039
Expendable	<u>240,231</u>	<u>237,300</u>
Total restricted assets	1,393,183	1,362,339
Unrestricted	<u>136,364</u>	<u>123,047</u>
Total net assets	<u>1,531,273</u>	<u>1,488,368</u>
Total liabilities & net assets	2,773,297	2,879,781

Restricted assets increased by \$30,844 from fiscal 2007 to fiscal 2008 because federal funding increased. In FY2007, \$1,655,752 was paid out for completed structures and \$616,200 was obligated to new federal and state structures. In FY2008, only \$1,074,976 was paid out for completed structures and \$868,856 was obligated to new federal and state structures.

When applications are received from the counties and approved, all restricted fund resources are available immediately and obligated to the newly-approved structures each quarter. Net assets, in the amount of \$1,531,273, are not obligated at this time because the counties can only complete structures so fast.

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

Revenues, Expenses and Changes in Net Assets		
	June 30,	
	2008	2007
Operating revenues:		
Federal Contracts Paid (NRCS)	\$ 719,371	1,111,861
Federal Contracts Paid (FWS)	-0-	30,000
State Appropriations	386,667	400,000
DNR Contributions	-0-	50,000
County Contributions	56,000	51,000
Other Contributions	51,777	70,000
Other	1,663	1,512
Total operating revenues	<u>1,215,478</u>	<u>1,714,373</u>
Operating expenses:		
Administrative	(128,127)	(124,000)
General	(10,652)	(6,910)
Lobbying	(7,500)	(7,500)
Research	(414)	(8,435)
Other Programs	(17,085)	-0-
Federal Structures Completed	(704,428)	(1,054,781)
State Structures	(370,548)	(600,971)
Small Structures	(39,035)	(43,406)
Provision for Depreciation	(1,256)	(1,483)
Total operating expenses	<u>(1,279,045)</u>	<u>(1,847,486)</u>
Non-operating revenues:		
Interest Earned	106,472	126,726
Gain (loss) on disposal of equipment	-0-	-0-
Total non-operating revenues	<u>106,472</u>	<u>126,726</u>
Increase (decrease) in net assets	\$ 42,905	(6,387)
Net Assets-Beginning of Year	<u>1,488,366</u>	<u>1,494,755</u>
Net Assets-End of Year	1,531,273	1,488,368

The decrease in total liabilities and net assets of 3.8% (\$2,773,297 in 2008, down from \$2,879,781 in 2007) is mainly a result of a decrease in the net number of structures slated to receive HCA funding in FY2008, due to the completion or cancellation of projects. The decrease in total liabilities and net assets may also be caused by the lingering effects of having no federal funding in FY2007, such as fewer projects approved in FY2007 (a decrease in liability) and no federal reimbursement of project administration (a decrease in assets). The HCA's liabilities have decreased by \$149,389, or approximately 12%, and the HCA's assets have only increased \$42,905, or approximately 2.8%.

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 creates the need for immediate cash flow to the counties. The amount of federally-funded structures completed decreased from \$1,054,781 in 2007 to \$704,428 in 2008 due to the fact that there was no new federal funding available in FY2007 and all previous federal funding had been obligated. The amount of state-funded structures completed decreased from \$600,971 in 2007 to \$370,548 in 2008, due only to the variability associated with structure completion. The small structure program is funded with interest earned from state and county funds to protect farmlands from gully erosion.

The Iowa Department of Natural Resources provided \$51,777 to modify two existing structures for fish passage. The HCA served as a pass-through, receiving the funds and then sending them immediately to the counties in which the projects were completed.

The following table lists the funds for county structure cost share that the HCA has administered during the fiscal years 2002 through 2008.

Funds Administered by HCA - 2002 to 2008					
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	\$ 42,500	\$ 1,630,500	0.73
2007	\$ -	\$ 400,000	\$ 51,000	\$ 451,000	0.00
2008	\$ 851,994	\$ 386,667	\$ 56,000	\$ 1,294,661	0.66
Total	\$ 6,430,394	\$ 2,428,334	\$ 329,500	\$ 9,188,228	0.70

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.

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, 2008 AND 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Current assets		
Cash and cash equivalents	\$ 1,748,952	1,846,000
Certificates of deposit	<u>1,022,619</u>	<u>1,030,799</u>
Total current assets	2,771,571	2,876,799
Property and Equipment		
Equipment	13,661	13,661
Less accumulated depreciation	<u>11,935</u>	<u>10,679</u>
Net property and equipment	<u>1,726</u>	<u>2,982</u>
Total assets	\$ <u><u>2,773,297</u></u>	<u><u>2,879,781</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 258	127
Deferred income	32,000	24,000
Appropriated structure costs	<u>1,209,766</u>	<u>1,367,286</u>
Total current liabilities	1,242,024	1,391,413
Net assets		
Unrestricted		
Invested in property and equipment	1,726	2,982
Undesignated	<u>136,364</u>	<u>123,047</u>
	138,090	126,029
Temporarily Restricted		
Interest Funds	240,231	237,300
State Funds	<u>1,152,952</u>	<u>1,125,039</u>
	<u>1,393,183</u>	<u>1,362,339</u>
Total net assets	<u>1,531,273</u>	<u>1,488,368</u>
Total liabilities and net assets	\$ <u><u>2,773,297</u></u>	<u><u>2,879,781</u></u>

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Federal contracts	\$ -	719,371	719,371	\$ -	1,141,861	1,141,861
State appropriations	-	386,667	386,667	-	450,000	450,000
County support	56,000	-	56,000	51,000	-	51,000
Other support	-	51,777	51,777	-	70,000	70,000
Interest	2,252	104,220	106,472	1,376	125,350	126,726
Miscellaneous	1,663	-	1,663	1,512	-	1,512
Temporarily restricted funds released from restrictions	1,231,191	(1,231,191)	-	1,804,754	(1,804,754)	-
Total support and revenue	<u>1,291,106</u>	<u>30,844</u>	<u>1,321,950</u>	<u>2,095,942</u>	<u>(254,843)</u>	<u>1,841,099</u>
Expenses						
Federal structures	704,428	-	704,428	1,054,781	-	1,054,781
County structures	370,548	-	370,548	600,971	-	600,971
Small structures	39,035	-	39,035	43,406	-	43,406
Other program expense	17,085	-	17,085	-	-	-
Research and development	414	-	414	8,435	-	8,435
Administrative salaries and fees	128,127	-	128,127	124,000	-	124,000
Lobbying fees	7,500	-	7,500	7,500	-	7,500
Depreciation expense	1,256	-	1,256	1,483	-	1,483
Other management and general expenses	10,652	-	10,652	6,910	-	6,910
Total expenses	<u>1,279,045</u>	<u>-</u>	<u>1,279,045</u>	<u>1,847,486</u>	<u>-</u>	<u>1,847,486</u>
Increase (decrease) in net assets	12,061	30,844	42,905	11,156	(17,543)	(6,387)
Net assets, beginning of year	<u>126,029</u>	<u>1,362,339</u>	<u>1,488,366</u>	<u>114,873</u>	<u>1,379,882</u>	<u>1,494,755</u>
Net assets, end of year	<u>\$ 138,090</u>	<u>1,393,183</u>	<u>1,531,273</u>	<u>\$ 126,029</u>	<u>1,362,339</u>	<u>1,488,366</u>

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 42,905	(6,387)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,256	1,483
(Increase) Decrease in :		
Receivables	-	147,493
Increase (Decrease) in:		
Appropriated structure costs	8,131	8,620
Accounts payable, accrued expenses	(157,520)	(153,208)
Net cash provided (used) by operating activities	(105,228)	(1,999)
Cash Flows from Investing Activities		
Purchase of investments	(1,080,616)	(1,052,518)
Proceeds from sale of investments	1,088,796	1,045,645
Net cash used by investing activities	8,180	(6,873)
Net change in cash	(97,048)	(8,872)
Cash and cash equivalents, beginning of year	1,846,000	1,854,872
Cash and cash equivalents, end of year	\$ 1,748,952	1,846,000

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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, 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 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 consist 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, 2008 AND 2007

NOTE 2 CERTIFICATES OF DEPOSIT

At June 30, 2008 and 2007, the Organization had funds invested in certificates of deposit as follows:

	Maturity Date	Interest Rate	Amount Including Accrued Interest	
			2008	2007
Twelve-Month Certificate	08-09-07	5.50 %	\$ -	\$ 524,347
Twelve-Month Certificate	02-28-07	5.50 %	-	254,529
Twelve-Month Certificate	05-09-07	5.40 %	-	251,923
Twelve-Month Certificate	08-09-07	5.25 %	261,914	-
Twelve-Month Certificate	11-09-07	4.85 %	257,840	-
Twelve-Month Certificate	03-11-08	3.21 %	252,438	-
Twelve-Month Certificate	06-12-08	3.46 %	250,427	-
			\$ 1,022,619	\$ 1,030,799

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 \$1,209,766 at June 30, 2008 and \$1,367,286 at June 30, 2007.

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 \$128,127 and \$124,000, for the years ended June 30, 2008 and 2007, respectively.

NOTE 5 RELATED PARTY TRANSACTIONS

Hungry Canyons Alliance, Inc. received \$386,667 and \$400,000 in passed through state support from Loess Hills Development and Conservation Authority for the years ended June 30, 2008 and 2007, respectively. Hungry Canyons Alliance, Inc. is considered an affiliate of this governmental unit. Hungry Canyons Alliance, Inc. also expensed \$8,127 and \$4,000 in administrative support to this Organization for each of the years ended June 30, 2008 and 2007.

HUNGRY CANYONS ALLIANCE, INC.
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budget</u>	<u>Actual</u>	Budget Variance Favorable (Unfavorable)
Support and Revenue			
Federal contracts	\$ 851,994	719,371	(132,623)
State contracts	386,667	386,667	-
Other State support	-	51,777	51,777
County support	-	56,000	56,000
Interest	-	106,472	106,472
Miscellaneous	-	1,663	1,663
Total support and revenue	<u>1,238,661</u>	<u>1,321,950</u>	<u>83,289</u>
Expenses			
Federal funds			
Administrative expenses	85,200	42,600	42,600
Federal structures	766,795	704,428	62,367
State funds			
State structures	924,423	370,548	553,875
Administrative expenses	38,667	38,667	-
Research and development	6,000	150	5,850
State discharge study	23,333	-	23,333
Aerial stream video reconnaissance	10,000	-	10,000
Video development	10,000	-	10,000
Experimental bored headcut basin terrace	20,000	17,085	2,915
Nickpoint study	-	264	(264)
Scanning old slides into digital pictures	2,000	1,777	223
Stream profile surveys	20,000	-	20,000
Road signs	2,000	-	2,000
Interest funds			
Small structures	50,000	39,035	10,965
Other funds			
Administrative expenses	46,860	46,860	-
Insurance	100	85	15
Supplies	4,000	907	3,093
Meetings and travel	3,000	3,765	(765)
Subscriptions	250	52	198
Miscellaneous	250	196	54
Lobbyist	7,500	7,500	-
Lobbying trips	5,000	3,685	1,315
Services to counties	2,000	185	1,815
Depreciation	-	1,256	(1,256)
Total expenses	<u>2,027,378</u>	<u>1,279,045</u>	<u>748,333</u>
Change in net assets	(788,717)	42,905	831,622
Net assets, beginning of year	<u>1,086,477</u>	<u>1,488,368</u>	<u>401,891</u>
Net assets, end of year	<u>\$ 297,760</u>	<u>1,531,273</u>	<u>1,233,513</u>

See accompanying independent auditors' report

HUNGRY CANYONS ALLIANCE, INC.
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
YEAR JUNE 30, 2008

<u>Grantor/Program</u>	<u>Grant or Award Number</u>	<u>CFDA Number</u>	<u>Program Expenditures</u>
Direct:			
US Department of Agriculture:			
Steambed Stabilization – Soil			
Conservation and Domestic			
Allotment Act of 1936			
	68-6114-2-185	10.902	\$ 87,176
	68-6114-3-200	10.902	112,218
	68-6114-4-200	10.902	71,758
	68-6114-5-044	10.902	104,288
	68-6114-6-125	10.902	<u>343,931</u>
			<u>\$ 719,371</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Hungry Canyons Alliance, Inc. 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

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
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, 2008 and 2007, and have issued our report thereon dated November 4, 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 Hungry Canyons Alliance, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hungry Canyons Alliance, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hungry Canyons Alliance, Inc.'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 Hungry Canyons Alliance, Inc.'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 Hungry Canyons Alliance, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by Hungry Canyons Alliance, Inc.'s internal control.

Continued...

November 4, 2008
Hungry Canyons Alliance, Inc.
Report on Compliance and Other Matters

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 Hungry Canyons Alliance, Inc.'s 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 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.

November 4, 2008

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, 2008. 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, 2008.

Continued...

November 4, 2008
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 grant agreements 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, but not for the purpose of expressing an opinion on the effectiveness of Hungry Canyons Alliance, Inc.'s internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hungry Canyons Alliance, Inc.'s internal control over compliance.

A control deficiency in the Organization's internal control over compliance 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 non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Organization's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

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, 2008

Part I: Summary of the Independent Auditors' Results

- a. The type of auditors' report issued was unqualified.
- b. No material weaknesses or significant deficiencies 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 significant deficiencies 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

Significant Deficiencies: None

Instances of Non-Compliance: None

Part III: Findings and Questioned Costs for Federal Awards

Significant Deficiencies: None

Instances of Non-Compliance: None

November 26, 2007

Federal Audit Clearinghouse
1201 E. 10th Street
Jeffersonville, IN 47132

Dear Sirs:

We have enclosed for your records a copy of the audit report and the data collection forms for Hungry Canyons Alliance, Inc. for the year ended June 30, 2008.

Sincerely,

SCHROER & ASSOCIATES, P.C.

Diane McGrain
Shareholder

DM/sh
Enc.

November 4, 2008

To the Board of Directors
Hungry Canyons Alliance, Inc.
712 S Hwy 6 Box 189
Oakland, IA 51560

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

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 Hungry Canyons Alliance, Inc. 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.

Hungry Canyons Alliance, Inc.
Communication with Those Charged with Governance

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. The most sensitive estimate affecting the financial statements was the appropriated structure costs.

Management's estimated of the liability is based on approved projects. We evaluated the key factors and assumptions used to develop the accounting estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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.

Continued...

Hungry Canyons Alliance, Inc.
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 Hungry Canyons Alliance, Inc. 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

