

HUNGRY CANYONS ALLIANCE, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

December 1, 2009

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, 2009 and 2008, 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, 2009 and 2008, 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.

As noted in Note 6 to the financial statements, the financial statements for the year ended June 30, 2008 have been restated to reflect a change in accounting policy. The effect of the change is to increase net assets at June 30, 2008 by \$1,209,766, and decrease the change in net assets by \$157,520 for the year ended June 30, 2008.

Continued...

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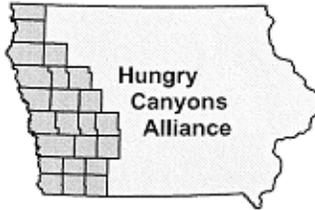
December 1, 2009
Hungry Canyons Alliance, Inc.
Independent Auditors' Report

In accordance with *Government Auditing Standards*, we have also issued a report dated December 1, 2009, on our consideration of Hungry Canyons Alliance, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 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.

Schroer & Associates, P. C.



Hungry Canyons Alliance

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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, 2009. We encourage readers to consider this information in conjunction with the HCA's financial statements which follow.

2009 Financial Highlights

- HCA Federal appropriations decreased from \$851,994 in FY2008 to \$282,000 in FY2009.
- HCA State appropriations increased slightly from \$386,667 in FY2008 to \$400,000 in FY2009.
- Excluding the funds available for state and small grade control structures (GCS), the total of all other HCA budget expenditures for fiscal year 2009 was approximately \$102,448 less than anticipated, or 41% under budget. The budget represents the maximum amount that could be used for non-structural projects and expenses. 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 FY10.
- Eighteen (18) western Iowa counties were declared eligible for federal disaster assistance due to severe rains in May 2007 and June 2008 which caused flooding and stream channel damage, endangering or destroying county infrastructure. Disaster assistance under the USDA-NRCS Emergency Watershed Protection (EWP) program provides cost share for new grade control structures (GCS) and repairs to existing GCS. In order to complete as many EWP projects as possible while the money is available to western Iowa, the HCA has agreed to provide some of the match (10%) to reduce the counties burden to meet the 25% local match requirement for EWP projects which provide grade control or are directly associated with existing GCS projects. The state of Iowa has appropriated \$100,000 to the HCA for FY10 specifically for this purpose.
- The HCA's total restricted assets (funds available for GCS) increased by \$321,453 from June 30, 2008 to June 30, 2009, or approximately 12.3 %. Several projects were redesignated from HCA state to HCA federal funding, freeing up state funds for future re-obligation to EWP federal projects. The HCA will match approximately \$13 million in federal EWP funding with \$1.3 million in HCA state funding.
- The HCA's total liabilities and net assets increased by \$521,958, or approximately 19%, from June 30, 2008 to June 30, 2009. This increase is due to the cancellation of several state funded projects (built with EWP funds instead) and the budget carryover and redesignated projects noted above.

- HCA funds continue to be obligated to new GCS projects. Many counties are focusing on pursuing EWP projects at this time in order to utilize the federal EWP funding, which is available to western Iowa counties for a limited time only. Due to limited county funds and the need to complete EWP projects quickly to qualify for assistance, several obligated HCA projects are being delayed until the EWP assistance is no longer available.

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 GCS 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 GCS, cost share for small GCS, 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

Assets, Liabilities and Net Assets			
	2009	June 30,	Restated 2008
Current assets	\$ 2,097,921	\$	1,748,952
Restricted assets	1,013,075		1,022,619
Grant Receivable	143,383		-0-
Capital assets	876		1,726
Total assets	3,255,255		2,773,297
Current liabilities			
Accounts payable	\$ 120,060	\$	258
Deferred income	32,000		32,000
Total current liabilities	152,060		32,258
Net assets:			
Unrestricted			
Invested in property and equipment	876		1,726
Undesignated	177,917		136,364
	178,793		138,090
Temporarily Restricted			
Interest funds	370,454		375,981
State funds	2,553,948		2,226,968
	2,924,402		2,602,949
Total net assets	3,103,195		2,741,039
Total liabilities & net assets	\$ 3,255,255	\$	2,733,297

The HCA's total restricted assets (funds available for GCS) increased on paper by \$321,453 from June 30, 2008 to June 30, 2009, or approximately 12.3 %, because of the transfer of \$410,003 in obligated state project funding to federal project funding (made necessary after five federal projects were cancelled and other federal projects had funds left over after construction was completed). These unobligated state funds will now be re-obligated to match future EWP federal projects.

As noted earlier, net assets may serve over time as a useful indicator of financial position. The HCA's net assets increased on paper by \$362,156, or approximately 13.2%, from June 30, 2008 to June 30, 2009, largely due to the increase in restricted assets, but also due to an increase of \$41,553 in undesignated net assets caused by reduced administrative and budget expenditures.

The HCA's total liabilities and net assets increased on paper by \$521,958, or approximately 19%, from June 30, 2008 to June 30, 2009, largely because of the transfer of projects from state to federal funding, but also because three state funded projects were cancelled (\$160,000) and built with EWP funds instead. In FY2009, the amount paid out for completed state and federal GCS, \$508,594, approximately equaled the amount obligated to new state and federal GCS, \$491,765.

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

Revenues, Expenses and Changes in Net Assets		
	2009	June 30, Restated 2008
Operating revenues:		
Federal Contracts Paid (NRCS)	\$ 654,041	\$ 719,371
Federal Contracts Paid (FWS)	-0-	-0-
State Appropriations	400,000	386,667
County Contributions	56,000	56,000
Other Support	8,967	51,777
Interest	61,052	106,472
Other	1,485	1,663
Total Operating revenues	<u>1,181,545</u>	<u>1,321,950</u>
Operating expenses:		
Administrative	(108,010)	(128,127)
General	(8,928)	(10,653)
Lobbying	(7,500)	(7,500)
Research	(180)	(414)
Other Program Expense	(5,000)	(17,085)
Federal GCS Completed	(610,456)	(704,428)
State GCS Completed	(37,347)	(528,067)
Small GCS	(41,118)	(39,035)
Provision for Depreciation	(850)	(1,256)
Total Operating expenses	<u>(819,389)</u>	<u>(1,436,565)</u>
Increase (decrease) in net assets	362,156	(114,615)
Net Assets-Beginning of Year, restated	<u>2,741,039</u>	<u>2,855,654</u>
Net Assets-End of Year	<u>\$ 3,103,195</u>	<u>\$ 2,741,039</u>

The amount of federal and state funds paid for completed GCS decreased by \$93,972 and \$490,720, respectively, from June 30, 2008 to June 30, 2009. This dramatic decrease is because most HCA counties are actively working on EWP projects at this time, rather than progressing on obligated HCA projects, in order to utilize the federal EWP funding while it is available to western Iowa counties.

Construction of in-stream GCS is the goal of the HCA. When applications are received from the counties and approved, all restricted fund resources are available immediately and obligated to the newly-approved GCS each quarter. GCS completed and paid year-around, so an average of 20-35 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 small structure program is funded with interest earned from state and county funds to protect farmlands from gully erosion.

The 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.

The following table lists the funds for county structure cost share that the HCA has administered during the fiscal years 2002 through 2009.

Funds Administered by HCA - 2002 to 2009					
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	\$ -	\$ 37,500	\$ 1,237,500	0.97
2004	\$ 1,200,000	\$ 400,000	\$ 40,000	\$ 1,640,000	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
2009	\$ 282,000	\$ 400,000	\$ 56,000	\$ 738,000	0.38
Total	\$ 6,712,394	\$ 2,828,334	\$ 380,500	\$ 9,921,228	0.68

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. The HCA needs continued state funding to continue to match annual HCA federal appropriations and also to match federal EWP funding. It is estimated that an additional 185 bridges/culverts in western Iowa still need protection from streambed degradation. At an average of \$65,000 per project, the HCA will need appropriations of \$12,000,000 in state and federal funding to complete our mission of completely protecting western Iowa's infrastructure.
- 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, 2009 AND 2008

	ASSETS	
	2009	Restated 2008
Current assets		
Cash and cash equivalents	\$ 2,097,921	1,748,952
Certificates of deposit	1,013,075	1,022,619
Grant receivable	143,383	-
Total current assets	3,254,379	2,771,571
Property and Equipment		
Equipment	13,661	13,661
Less accumulated depreciation	12,785	11,935
Net property and equipment	876	1,726
Total assets	\$ 3,255,255	2,773,297

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 120,060	258
Deferred income	32,000	32,000
Total current liabilities	152,060	32,258
Net assets		
Unrestricted		
Invested in property and equipment	876	1,726
Undesignated	177,917	136,364
	178,793	138,090
Temporarily Restricted		
Interest Funds	370,454	375,981
State Funds	2,553,948	2,226,968
	2,924,402	2,602,949
Total net assets	3,103,195	2,741,039
Total liabilities and net assets	\$ 3,255,255	2,773,297

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009			Restated 2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Federal contracts	\$ -	654,041	654,041	\$ -	719,371	719,371
State appropriations	-	400,000	400,000	-	386,667	386,667
County support	56,000	-	56,000	56,000	-	56,000
Other support	-	8,967	8,967	-	51,777	51,777
Interest	1,512	59,540	61,052	2,252	104,220	106,472
Miscellaneous	1,485	-	1,485	1,663	-	1,663
Temporarily restricted funds released from restrictions	801,095	(801,095)	-	1,388,771	(1,388,711)	-
Total support and revenue	<u>860,092</u>	<u>321,453</u>	<u>1,181,545</u>	<u>1,448,626</u>	<u>(126,676)</u>	<u>1,321,950</u>
Expenses						
Federal structures	610,456	-	610,456	704,428	-	704,428
County structures	37,347	-	37,347	528,067	-	528,067
Small structures	41,118	-	41,118	39,035	-	39,035
Other program expense	5,000	-	5,000	17,085	-	17,085
Research and development	180	-	180	414	-	414
Administrative salaries and fees	108,010	-	108,010	128,127	-	128,127
Lobbying fees	7,500	-	7,500	7,500	-	7,500
Depreciation expense	850	-	850	1,256	-	1,256
Other management and general expenses	8,928	-	8,928	10,653	-	10,653
Total expenses	<u>819,389</u>	<u>-</u>	<u>819,389</u>	<u>1,436,565</u>	<u>-</u>	<u>1,436,565</u>
Change in net assets	40,703	321,453	362,156	12,061	(126,676)	(114,615)
Net assets, beginning of year, restated	138,090	2,602,949	2,741,039	126,029	2,729,625	2,855,654
Net assets, end of year	\$ <u>178,793</u>	<u>2,924,402</u>	<u>3,103,195</u>	\$ <u>138,090</u>	<u>2,602,949</u>	<u>2,741,039</u>

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	Restated 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 362,156	(114,615)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	850	1,256
(Increase) Decrease in :		
Receivables	(143,383)	-
Increase (Decrease) in:		
Payable	119,802	131
Deferred income	-	8,000
Net cash provided (used) by operating activities	339,425	(105,228)
Cash Flows from Investing Activities		
Purchase of investments	(1,033,062)	(1,080,616)
Proceeds from sale of investments	1,042,606	1,088,796
Net cash used by investing activities	9,544	8,180
Net change in cash	348,969	(97,048)
Cash and cash equivalents, beginning of year	1,748,952	1,846,000
Cash and cash equivalents, end of year	\$ 2,097,921	1,748,952

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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, 2009 AND 2008

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, and are restricted for streambed stabilization projects. The Organization has no permanently restricted net assets.

HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 2 CERTIFICATES OF DEPOSIT

At June 30, 2009 and 2008, the Organization had funds invested in certificates of deposit as follows:

	Maturity Date	Interest Rate	Amount Including Accrued Interest	
			2009	2008
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
Twelve-Month Certificate	09-10-09	3.46 %	257,005	-
Twelve-Month Certificate	12-15-09	3.21 %	254,352	-
Twelve-Month Certificate	03-11-10	2.00 %	251,521	-
Twelve-Month Certificate	06-12-10	1.60 %	250,197	-
			\$ 1,013,075	\$ 1,022,619

NOTE 3 STRUCTURE COST COMMITMENTS

The Organization has approved various projects with local counties for soil stabilization projects. Formerly, when these projects were approved, the cost was recorded as an appropriated expense. The Organization changed its accounting policy during the year to recognize these structure costs when incurred in order to be consistent with the treatment used for all funding sources. The Organization has committed funding to the following projects not completed as of June 30, 2009:

Federal Projects	\$ 1,484,504
State Projects	492,722
Small Structures	<u>134,245</u>
	<u>\$ 2,111,471</u>

These commitments are not reflected in the financial statements.

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 \$104,010 and \$120,000, for the years ended June 30, 2009 and 2008, respectively.

HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 5 RELATED PARTY TRANSACTIONS

Hungry Canyons Alliance, Inc. received \$400,000 and \$386,667 in passed through state support from Loess Hills Development and Conservation Authority for the years ended June 30, 2009 and 2008, respectively. Hungry Canyons Alliance, Inc. is considered an affiliate of this governmental unit. Hungry Canyons Alliance, Inc. also expensed \$4,000 and \$8,127 in administrative support to this Organization for each of the years ended June 30, 2009 and 2008.

NOTE 6 PRIOR PERIOD ADJUSTMENTS

The financial statements for the year ended June 30, 2008 have been restated to expense structure costs for state and small structures at the time costs are incurred rather than when costs are appropriated. This change is consistent with the policy used for federal structures.

The cumulative effect of the change on total net assets and each class of net assets as of year ended June 30, 2007 is as follows:

	<u>As Previously Reported</u>	<u>Cumulative Effect</u>	<u>As Restated</u>
Net Assets:			
Unrestricted	\$ 126,029	\$ -	\$ 126,029
Temporarily Restricted	<u>1,362,339</u>	<u>1,367,286</u>	<u>2,729,625</u>
Total Net Assets	<u>\$ 1,488,368</u>	<u>\$ 1,367,286</u>	<u>\$ 2,855,654</u>

The cumulative effect of the change on total net assets and each class of net assets as of year ended June 30, 2008 is as follows:

	<u>As Previously Reported</u>	<u>Cumulative Effect</u>	<u>As Restated</u>
Change in Net Assets:			
Unrestricted	\$ 12,061	\$ -	\$ 12,061
Temporarily Restricted	<u>30,844</u>	<u>(157,520)</u>	<u>(126,676)</u>
Total Net Assets	<u>\$ 42,905</u>	<u>\$ (157,520)</u>	<u>\$ (114,615)</u>

HUNGRY CANYONS ALLIANCE, INC.
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2009

	Budget	Actual	Budget Variance Favorable (Unfavorable)
Support and Revenue			
Federal contracts	\$ 282,000	654,041	372,041
State contracts	394,000	400,000	6,000
Other State support	-	8,967	8,967
County support	-	56,000	56,000
Interest	-	61,052	61,052
Miscellaneous	-	1,485	1,485
Total support and revenue	<u>676,000</u>	<u>1,181,545</u>	<u>505,545</u>
Expenses			
Federal funds			
Administrative expenses	28,200	-	28,200
Federal structures	253,800	610,456	(356,656)
State funds			
State structures	1,206,005	37,347	1,168,658
Administrative expenses	39,400	39,460	(60)
Research and development	5,000	180	4,820
State discharge study	26,500	-	26,500
Aerial stream video reconnaissance	5,000	-	5,000
Video development	5,000	-	5,000
Experimental bored headcut basin terrace	20,000	-	20,000
Experimental scrap tire structure	20,000	-	20,000
Nickpoint study	500	-	500
Stream profile surveys	20,000	-	20,000
Road signs	2,000	-	2,000
Rain trailer	-	5,000	(5,000)
Interest funds			
Small structures	50,000	41,118	8,882
Administrative expenses	23,950	23,950	-
Other funds			
Administrative expenses	30,500	44,600	(14,100)
Insurance	100	85	15
Supplies	4,000	623	3,377
Meetings and travel	3,000	3,248	(248)
Office assistants	2,000	45	1,955
Subscriptions	250	-	250
Miscellaneous	250	321	(71)
Lobbyist	7,500	7,500	-
Lobbying trips	5,000	4,606	394
Services to counties	2,000	-	2,000
Depreciation	-	850	(850)
Total expenses	<u>1,759,955</u>	<u>819,389</u>	<u>940,566</u>
Change in net assets	(1,083,955)	362,156	1,446,111
Net assets, beginning of year, as restated	<u>1,412,187</u>	<u>2,741,039</u>	<u>1,328,852</u>
Net assets, end of year	<u>\$ 328,232</u>	<u>3,103,195</u>	<u>2,774,963</u>

See accompanying independent auditors' report

HUNGRY CANYONS ALLIANCE, INC.
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
YEAR JUNE 30, 2009

<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			
	68-6114-4-200	10.902	\$ 483,377
	68-6114-6-125	10.902	147,660
	68-6114-8-2	10.902	<u>23,004</u>
			<u>\$ 654,041</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



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

December 1, 2009

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, 2009 and 2008, and have issued our report thereon dated December 1, 2009. 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.

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December 1, 2009
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.

Schroer & Associates, P.C.



Marilyn Schroer, CPA
Diane McGrain, CPA
Jim Menard, CPA

December 1, 2009

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, 2009. 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, 2009.

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December 1, 2009
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.

Schroeder & Associates, P.C.

HUNGRY CANYONS ALLIANCE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR JUNE 30, 2009

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