

**HUNGRY CANYONS ALLIANCE, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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	14-17
Other Information:	
Budgetary Comparison Schedule	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



Marilyn Schroer, CPA
Diane McGrain, CPA
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October 16, 2012

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, 2012 and 2011, 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 audits.

We conducted our audits 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 16, 2012, 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 audits.

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October 16, 2012
Hungry Canyons Alliance, Inc.
Independent Auditors' Report

Our audits were conducted for the purpose of forming an opinion on Hungry Canyons Alliance, Inc.'s financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 9 and 18 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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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, 2012. We encourage readers to consider this information in conjunction with the HCA's financial statements which follow.

2012 Financial Highlights

- HCA Federal appropriations were not funded for FY2011 or FY2012.
- HCA State appropriations increased from \$323,000 in FY2011 to \$356,250 in FY2012, a 10.2% increase.
- The HCA's total restricted assets (funds available for GCS) increased by \$220,964 from June 30, 2011 to June 30, 2012, or approximately 11.6%. This increase is due to the cancellation of two large obligated federal projects in one county due to a lack of available county match. State funded projects were then re-obligated under federal funds, thus increasing state funds available for additional projects.
- The HCA's total liabilities and net assets increased by \$201,337, or approximately 9.4%, from June 30, 2011 to June 30, 2012. This increase is again due to the cancellation of two large obligated projects.
- HCA funds continue to be obligated to new GCS projects, despite the delay of many obligated HCA projects over the last couple of years while counties were focused on completing federally funded Emergency Watershed Protection (EWP) projects; EWP funding was available to western Iowa counties for a limited time only. We anticipate the completion of numerous HCA projects in late 2012.

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 (pgs. 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		
	June 30,	
	2012	2011
Assets		
Cash and cash equivalents	\$ 1,598,931	1,395,550
Restricted assets	752,062	754,106
Prepaid insurance	33	33
Total assets	\$ 2,351,026	2,149,689
Liabilities		
Accounts payable	\$ 5,245	-
Deferred income	27,000	33,000
Total liabilities	32,245	33,000
Net assets:		
Unrestricted		
Undesignated	189,744	208,616
Temporarily restricted	189,744	208,616
Interest funds	169,954	296,529
State funds	1,959,083	1,611,544
Total net assets	2,129,037	1,908,073
Total liabilities and net assets	\$ 2,318,781	2,116,689
	\$ 2,351,026	2,149,689

The HCA's total restricted assets (funds available for GCS) increased by \$220,964 from June 30, 2011 to June 30, 2012, or approximately 11.6%. This increase is due to the cancellation of two large obligated federal projects in one county due to a lack of available county match. State funded projects were then re-obligated under federal funds, thus increasing state funds available for additional projects.

As noted earlier, net assets may serve over time as a useful indicator of financial position. The HCA's net assets increased by \$202,092, or approximately 9.5%, and the HCA's total liabilities and net assets increased by \$201,337, or approximately 9.4%, from June 30, 2011 to June 30, 2012. Both of these increases are again due to due to the cancellation of several large obligated projects.

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

Revenues, Expenses and Changes in Net Assets		
	June 30,	
	2012	2011
Operating revenues:		
Federal contracts paid (NRCS)	\$ 245,618	489,461
State appropriations	356,250	323,000
County contributions	57,000	54,000
Interest	9,297	18,920
Other	2,563	1,323
Total operating revenues	<u>670,728</u>	<u>886,704</u>
Operating expenses:		
Administrative	115,344	102,330
General	9,452	9,104
Lobbying	7,500	7,500
Research	54	527
Federal GCS completed	239,355	469,820
State GCS completed	-	887,527
Small GCS	81,200	36,294
Other programs	15,731	-
Provision for depreciation	-	360
Total operating expenses	<u>468,636</u>	<u>1,513,462</u>
Change in net assets	202,092	(626,758)
Net assets – beginning of year	<u>2,116,689</u>	<u>2,743,447</u>
Net assets – end of year	<u>\$ 2,318,781</u>	<u>\$ 2,116,689</u>

The amount of state funds paid for completed GCS decreased by \$887,527 (all projects completed in FY12 were paid with federal funds). The amount of federal funds paid for completed GCS decreased by \$230,465 from June 30, 2011 to June 30, 2012. All EWP projects were completed and paid in FY2011, leaving no EWP projects in FY2012. Meanwhile progress on obligated HCA projects slowed because available county resources had been used to utilize the federal EWP funding while available to western Iowa counties in FY2010 and 2011; after a year or hiatus to allow county fund balances to build back up, we anticipate the completion of numerous HCA projects in late 2012.

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 are 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 2012.

Funds Administered by HCA - 2002 to 2012

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
2010	\$ 282,000	\$ 500,000	\$ 56,000	\$ 838,000	0.34
2011	\$ -	\$ 323,000	\$ 57,000	\$ 380,000	0.00
2012	\$ -	\$ 393,750	\$ 57,000	\$ 450,750	0.00
Total	\$ 6,994,394	\$ 4,045,084	\$ 550,500	\$ 11,589,978	0.60

Budgetary Highlights

Excluding the funds available for state and small grade control structures (GCS), the total of all other HCA budget expenditures for FY2012 was approximately \$20,234 less than anticipated, or 8% 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 FY2013.

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 match federal appropriations and federal EWP funding. During the last election, Iowa voters approved a natural resources trust fund through which the HCA may be able to receive funding, however, federal earmark appropriations may be coming to an end. It is estimated that an additional 180 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 \$11,700,000 in state and federal funding to complete our mission of completely protecting western Iowa's infrastructure.
- The HCA program requires counties provide 20% match in order to receive cost share. Funding reductions for local governments may limit the amount of matching funds available for projects, thus limiting the total number of 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, 2012 AND 2011

ASSETS

	2012	2011
Current assets		
Cash and cash equivalents	\$ 1,598,931	1,395,550
Certificates of deposit	752,062	754,106
Prepaid insurance	33	33
Total current assets	2,351,026	2,149,689
Property and Equipment		
Equipment	13,661	13,661
Less accumulated depreciation	13,661	13,661
Net property and equipment	-	-
Total assets	\$ 2,351,026	2,149,689

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 5,245	-
Deferred income	27,000	33,000
Total current liabilities	32,245	33,000
Net assets		
Unrestricted		
Undesignated	189,744	208,616
Temporarily restricted		
Interest funds	169,954	296,529
State funds	1,959,083	1,611,544
Total net assets	2,129,037	1,908,073
Total liabilities and net assets	\$ 2,351,026	2,149,689

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Federal contracts	\$ -	245,618	245,618	\$ -	489,461	489,461
State appropriations	-	356,250	356,250	-	323,000	323,000
County support	57,000	-	57,000	54,000	-	54,000
Interest	253	9,044	9,297	515	18,405	18,920
Miscellaneous	2,563	-	2,563	1,323	-	1,323
Temporarily restricted funds released from restrictions	389,948	(389,948)	-	1,466,133	(1,466,133)	-
Total support and revenue	449,764	220,964	670,728	1,521,971	(635,267)	886,704
Expenses						
Federal structures	239,355	-	239,355	469,820	-	469,820
County structures	-	-	-	887,527	-	887,527
Small structures	81,200	-	81,200	36,294	-	36,294
Other program expense	15,731	-	15,731	-	-	-
Research and development	54	-	54	527	-	527
Administrative salaries and fees	115,344	-	115,344	102,330	-	102,330
Lobbying fees	7,500	-	7,500	7,500	-	7,500
Depreciation expense	-	-	-	360	-	360
Other management and general expenses	9,452	-	9,452	9,104	-	9,104
Total expenses	468,636	-	468,636	1,513,462	-	1,513,462
Change in net assets	(18,872)	220,964	202,092	8,509	(635,267)	(626,758)
Net assets, beginning of year	208,616	1,908,073	2,116,689	200,107	2,543,340	2,743,447
Net assets, end of year	\$ 189,744	2,129,037	2,318,781	\$ 208,616	1,908,073	2,116,689

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 202,092	(626,758)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	-	360
(Increase) decrease in :		
Prepaid insurance	-	67
Increase (decrease) in:		
Payables	5,245	(50,512)
Deferred income	(6,000)	3,000
Net cash provided (used) by operating activities	<u>201,337</u>	<u>(673,843)</u>
Cash Flows from Investing Activities		
Purchase of investments	(754,985)	(760,554)
Proceeds from sale of investments	757,029	763,216
Net cash provided by investing activities	<u>2,044</u>	<u>2,662</u>
Net change in cash	203,381	(671,181)
Cash and cash equivalents, beginning of year	<u>1,395,550</u>	<u>2,066,731</u>
Cash and cash equivalents, end of year	\$ <u>1,598,931</u>	<u>1,395,550</u>

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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, 2012 AND 2011

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.

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, state 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.

Date of Management Review – Management has evaluated subsequent events through October 16, 2012, the date the financial statements were available to be issued.

HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 2 CERTIFICATES OF DEPOSIT

At June 30, 2012 and 2011, the Organization had funds invested in certificates of deposit as follows:

	Maturity Date	Interest Rate	Amount Including Accrued Interest	
			2012	2011
Twelve-Month Certificate	09-10-11	1.15 %	\$ -	\$ 252,315
Twelve-Month Certificate	12-15-11	.90 %	-	251,241
Twelve-Month Certificate	03-11-12	.75 %	-	250,550
Twelve-Month Certificate	09-10-12	.50 %	251,007	-
Twelve-Month Certificate	12-15-12	.50 %	250,677	-
Twelve-Month Certificate	03-11-13	.50 %	250,378	-
			<u>\$ 752,062</u>	<u>\$ 754,106</u>

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 has committed funding to the following projects not completed as of June 30, 2012:

Federal Projects	\$ 380,438
State Projects	902,570
Small Structures	<u>42,700</u>
	<u>\$ 1,325,708</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 \$110,000 and \$99,100, for the years ended June 30, 2012 and 2011, respectively.

HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 5 RELATED PARTY TRANSACTIONS

Hungry Canyons Alliance, Inc. received \$356,250 and \$323,000 in passed through state support from Loess Hills Development and Conservation Authority for the years ended June 30, 2012 and 2011, respectively. Hungry Canyons Alliance, Inc. is considered an affiliate of this governmental unit. Hungry Canyons Alliance, Inc. also expensed \$5,345 and \$3,230 in administrative support to this Organization for each of the years ended June 30, 2012 and 2011.

HUNGRY CANYONS ALLIANCE, INC.
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012

	Budget	Actual	Budget Variance Favorable (Unfavorable)
Support and revenue			
Federal contracts	\$ -	245,618	245,618
State contracts	356,250	356,250	-
County support	-	57,000	57,000
Interest	-	9,297	9,297
Miscellaneous	-	2,563	2,563
Total support and revenue	<u>356,250</u>	<u>670,728</u>	<u>314,478</u>
Expenses			
Federal funds			
Federal structures	-	239,355	(239,355)
State funds			
State structures	984,544	-	984,544
Administrative expenses	35,625	35,624	1
Research and development	3,000	54	2,946
State discharge study	7,000	978	6,022
Aerial stream video reconnaissance	5,000	-	5,000
Experimental bored headcut basin terrace	20,000	-	20,000
Experimental scrap tire structure	10,000	-	10,000
Nickpoint study	6,000	5,000	1,000
GIS to GPS	25,671	5,245	20,426
Stream profile surveys	10,000	4,508	5,492
Road signs	1,000	-	1,000
Interest funds			
Small structures	25,500	81,200	(55,700)
Administrative expenses	11,719	11,719	-
Other funds			
Administrative expenses	68,000	68,000	-
Insurance	500	484	16
Supplies	2,250	442	1,808
Meetings and travel	3,000	4,239	(1,239)
Office assistants	2,000	513	1,487
Subscriptions	150	-	150
Miscellaneous	100	-	100
Lobbyist	7,500	7,500	-
Lobbying trips	5,000	3,775	1,225
Services to counties	500	-	500
Total expenses	<u>1,234,059</u>	<u>468,636</u>	<u>765,423</u>
Change in net assets	(877,809)	202,092	1,079,901
Net assets, beginning of year	<u>1,138,037</u>	<u>2,116,689</u>	<u>978,652</u>
Net assets, end of year	<u>\$ 260,228</u>	<u>2,318,781</u>	<u>2,058,553</u>

See Accompanying Independent Auditors' Report



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

October 16, 2012

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, 2012 and 2011, and have issued our report thereon dated October 16, 2012. We conducted our audits 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 audits, 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Continued...

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October 16, 2012
Hungry Canyons Alliance, Inc.
Report on Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hungry Canyons Alliance, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits 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 and management 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 audits. 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.