HUNGRY CANYONS ALLIANCE, INC.
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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SCHROER
and associates p.c.
certified public accountants

Diane McGrain, CPA
Jim Menard, CPA

January 5, 2015

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hungry Canyons Alliance, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessments of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 6 through 10, and page 19, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2015, on our consideration of Hungry Canyons Alliance, Inc.'s internal control over financial reporting and on our test 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 internal control over financial reporting or on compliance. That report is an integral part of an audit preformed in accordance with *Government Auditing Standards* in considering Hungry Canyons Alliance, Inc.'s internal control over financial reporting and compliance.

Schoen & Associates, PC

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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, 2014. We encourage readers to consider this information in conjunction with the HCA's financial statements which follow.

2014 Financial Highlights

- HCA Federal appropriations were not funded for FY2013 or again in FY2014.
- HCA State appropriations increased from $393,750 in FY2013 to $450,000 in FY2014, a 14.5% increase.
- The HCA's total restricted assets (funds available for Grade Control Structures-CGS) decreased by $151,498 from June 30, 2013 to June 30, 2014, or approximately 7.9%. This decrease is due to an increase in the number of state projects completed in FY2014. Many obligated HCA projects had been delayed over the last several years while counties focused on completing federally funded Emergency Watershed Protection (EWP) projects; EWP funding was available to western Iowa counties for a limited time only.
- The HCA's total liabilities and net assets decreased by $179,313, or approximately 8.5%, from June 30, 2013 to June 30, 2014. This decrease is again due to an increase in the number of state projects completed.

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.13-16) 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 cast 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, 2014	June 30, 2013
Current assets	$ 1,936,145	$ 1,613,833
Restricted assets	-	501,592
Prepaid Insurance	-	33
Total assets	$ 1,936,145	$ 2,115,458
Current liabilities		
Deferred income	$ 27,000	$ 33,000
Total current liabilities	27,000	33,000
Net assets:		
Unrestricted		
Undesignated	147,008	168,823
Temporarily Restricted		
Interest funds	111,174	147,792
State funds	1,650,963	1,765,843
	1,762,137	1,913,635
Total net assets	1,909,145	2,082,458
Total liabilities and net assets	$ 1,936,145	$ 2,115,458

The HCA's total restricted assets (funds available for GCS) decreased by $151,498 from June 30, 2013 to June 30, 2014, or approximately 7.9%. This decrease is due to an increase in the number of state projects completed in FY2014. Many obligated HCA projects had been delayed over the last several years while counties focused on completing federally funded Emergency Watershed Protection (EWP) projects; EWP funding was available to western Iowa counties for a limited time only.

As noted earlier, net assets may serve over time as a useful indicator of financial position. The HCA's net assets decreased by $173,313, or approximately 8.3%, and the HCA's total liabilities and net assets decreased by $179,313, or approximately 8.5%, from June 30, 2013 to June 30, 2014. Both of these decreases are again due to an increase in the number of state projects completed.

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

Revenues, Expenses and Changes in Net Assets	June 30, 2014	June 30, 2013
Operating revenues:		
Federal Contracts Paid (NRCS)	$ 121,235	$ 557,983
State Appropriations	450,000	393,750
County Contributions	57,000	57,000
Interest	8,583	8,800
Other	3,004	1,822
Total operating revenues	639,822	1,019,355
Operating expenses:		
Administrative	116,752	115,906
General	9,408	18,061
Lobbying	7,500	7,500
Research	-	1,900
Federal GCS Completed	121,235	548,438
State GCS Completed	513,157	533,925
Small GCS	26,861	22,478
Other Programs	18,222	7,470
Total operating expenses	813,135	1,255,678
Change in net assets	(173,313)	(236,323)
Net Assets – Beginning of Year	2,082,458	2,318,781
Net Assets – End of Year	$ 1,909,145	$ 2,082,458

The amount of state funds paid for completed GCS decreased slightly by $20,768, while the amount of federal funds paid for completed GCS decreased significantly by $427,203 from June 30, 2013 to June 30, 2014. The last federal funds were spent by December 31, 2013, leaving only state funds for use by the HCA going forward.

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 15-25 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 2014.

Funds Administered by HCA - 2002 to 2014

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	$ -	$ 356,250	$ 57,000	$ 413,250	0.00
2013	$ -	$ 393,750	$ 57,000	$ 450,750	0.00
2014	$ -	$ 450,000	$ 57,000	$ 507,000	0.00
Total	$ 6,994,394	$ 4,851,334	$ 664,500	$ 12,510,228	0.56

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 potential federal appropriations and federal EWP funding. The HCA may be able to receive state funding through a proposed natural resources trust fund, however, federal earmark appropriations have come to an end for the foreseeable future. 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, 2014 AND 2013

ASSETS

	2014	2013
Current assets		
Cash and cash equivalents	$ 1,936,145	$ 1,613,833
Certificates of deposits	-	501,592
Prepaid insurance	-	33
Total current assets	1,936,145	2,115,458
Property and Equipment		
Equipment	13,661	13,661
Less accumulated depreciation	13,661	13,661
Net property and equipment	-	-
Total assets	$ 1,936,145	$ 2,115,458

LIABILITIES AND NET ASSETS

Current liabilities		
Deferred income	$ 27,000	$ 33,000
Total current liabilities	27,000	33,000
Net assets		
Unrestricted		
Undesignated	147,008	168,823
	147,008	168,823
Temporarily Restricted		
Interest funds	111,174	147,792
State funds	1,650,963	1,765,843
	1,762,137	1,913,635
Total net assets	1,909,145	2,082,458
Total liabilities and net assets	$ 1,936,145	$ 2,115,458

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Federal contracts	$ -	121,235	121,235	$ -	557,983	557,983
State appropriations	-	450,000	450,000	-	393,750	393,750
County support	57,000	-	57,000	57,000	-	57,000
Other support	-	-	-	-	-	-
Interest	90	8,493	8,583	151	8,649	8,800
Miscellaneous	3,004	-	3,004	1,822	-	1,822
Temporarily restricted funds			-			-
released from restrictions	731,226	(731,226)	-	1,175,784	(1,175,784)	-
Total support and revenue	791,320	(151,498)	639,822	1,234,757	(215,402)	1,019,355
Expenses						
Federal structures	121,235	-	121,235	548,438	-	548,438
County structures	513,157	-	513,157	533,925	-	533,925
Small structures	26,861	-	26,861	22,478	-	22,478
Other program expense	18,222	-	18,222	7,470	-	7,470
Research and development	-	-	-	1,900	-	1,900
Administrative salaries and fees	116,752	-	116,752	115,906	-	115,906
Lobbying fees	7,500	-	7,500	7,500	-	7,500
Other management and general expenses	9,408	-	9,408	18,061	-	18,061
Total expenses	813,135	-	813,135	1,255,678	-	1,255,678
Change in net assets	(21,815)	(151,498)	(173,313)	(20,921)	(215,402)	(236,323)
Net assets, beginning of year	168,823	1,913,635	2,082,458	189,744	2,129,037	2,318,781
Net assets, end of year	$ 147,008	1,762,137	1,909,145	$ 168,823	1,913,635	2,082,458

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities		
Change in net assets	$ (173,313)	$ (236,323)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Decrease in prepaid insurance	33	-
Increase (decrease) in:		
Payables	-	(5,245)
Deferred income	(6,000)	6,000
Net cash provided (used) by operating activities	(179,280)	(235,568)
Cash Flows from Investing Activities		
Purchase of investments	(786)	(503,344)
Proceeds from sale of investments	502,378	753,814
Net cash provided (used) by investing activities	501,592	250,470
Net change in cash	322,312	14,902
Cash and cash equivalents, beginning of year	1,613,833	1,598,931
Cash and cash equivalents, end of year	$ 1,936,145	$ 1,613,833

See Accompanying Notes to Financial Statement

HUNGRY CANYONS ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Nature of Activities – The Hungry Canyons Alliance, Inc. 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, Inc., 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., 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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 January 5, 2015, the date the financial statements were available to be issued.

NOTE 2 CERTIFICATES OF DEPOSIT

At June 30, 2014 and 2013, the Organization had funds invested in certificates of deposit as follows:

	Maturity Date	Interest Rate	Amount Including Accrued Interest 2014	Amount Including Accrued Interest 2013
Twelve-Month Certificate	09-10-13	.50 %	-	250,903
Twelve-Month Certificate	12-15-13	.50 %	-	250,689
			$ -	$ 501,592

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, 2014:

State Projects	$ 1,132,604
Small Structures	54,000
	$ 1,186,604

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 $110,000, for the years ended June 30, 2014 and 2013, respectively.

NOTE 5 RELATED PARTY TRANSACTIONS

Hungry Canyons Alliance, Inc. received $450,000 and $393,750 in passed through state support from Loess Hills Development and Conservation Authority for the years ended June 30, 2014 and 2013, respectively. Hungry Canyons Alliance, Inc. is considered an affiliate of this governmental unit. Hungry Canyons Alliance, Inc. also expensed $6,750 and $5,906 in administrative support to this Organization for each of the years ended June 30, 2014 and 2013.

HUNGRY CANYONS ALLIANCE, INC.
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2014

	Budget	Actual	Budget Variance Favorable (Unfavorable)
Support and Revenue			
Federal contracts	$ -	$ 121,235	$ 121,235
State contracts	450,000	450,000	-
County support	-	57,000	57,000
Interest	-	8,583	8,583
Miscellaneous	-	3,004	3,004
Total support and revenue	450,000	639,822	189,822
Expenses			
Federal funds			
Federal structures	-	121,235	(121,235)
State funds			
State structures	1,504,896	513,157	991,739
Administrative expenses	45,001	45,001	-
Research and development	4,000	-	4,000
Stage discharge study	1,000		1,000
Aerial stream video reconnaissance	5,000	-	5,000
Experimental bored headcut basin terrac	20,000	-	20,000
Experimental scrap tire structure	10,000	-	10,000
Nickpoint study	1,000	-	1,000
GIS to GPS	25,671	18,222	7,449
Stream profile surveys	10,000		10,000
Road signs	1,000	-	1,000
Interest funds			
Small structures	25,500	26,861	(1,361)
Administrative expenses	6,751	6,751	-
Other funds			
Administrative expenses	65,000	65,000	-
Insurance	100	203	(103)
Supplies	4,250	874	3,376
Meetings and travel	3,500	5,041	(1,541)
Office assistants	500	-	500
Subscriptions	150	-	150
Miscellaneous	600	-	600
Lobbyist	8,000	7,500	500
Lobbying trips	7,000	3,290	3,710
Services to counties	400	-	400
Total expenses	1,749,319	813,135	936,184
Change in net assets	(1,299,319)	(173,313)	1,126,006
Net assets, beginning of year	1,567,374	2,082,458	515,084
Net assets, end of year	$ 268,055	$ 1,909,145	$ 1,641,090

See Accompanying Independent Auditors' Report

SCHROER
and associates p.c.
certified public accountants

Diane McGrain, CPA
Jim Menard, CPA

January 5, 2015

INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of Hungry Canyons Alliance, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 5, 2015.

Internal Control over Financial Reporting

In planning and performing our audits, we considered Hungry Canyons Alliance, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hungry Canyons Alliance, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Hungry Canyons Alliance, Inc.'s internal control.

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. A significant deficiency is a deficiency, or a combinations of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Continued...

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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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hungry Canyons Alliance, Inc.'s financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Schoen & Associates, PC