THE HEARTLAND GROUP

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS

JUNE 30, 2005

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THE HEARTLAND GROUP
OFFICIALS

Name	Title
Steve Siegel	Chairperson
Larry Delong	Vice-Chairperson
Mike Pech	Treasurer
Clarence Gee	Secretary
Richard Denny	Board Member

FREDRICK J. HENSEL, P.C.
Certified Public Accountant
1052 West Madison Suite B • P.O. Box 842 • Washington, IA 52353 • (319) 653-7617 • FAX (319) 653-5739

Independent Auditor's Report

To the Board of Directors of
The Heartland Group

I have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of The Heartland Group, Fairfield, Iowa, as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Group's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I 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 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. I believe my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of The Heartland Group as of and for the year ended June 30, 2005 and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Accounting Standards, I have also issued my report dated November 16, 2005 on my consideration of The Heartland Group's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of my 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 read in conjunction with this report in considering the results of my audit.

Fredrick J. Hensel, P.C.
November 16, 2005

Financial Statements

THE HEARTLAND GROUP
Statement of Cash Receipts, Disbursements and
Changes in Net Assets – Cash Basis

As of and for the year ended June 30, 2005

Operating receipts:	
Facility rent payments	$137,795
Total operating receipts	137,795
Operating disbursements:	
Insurance	8,405
Professional fees	2,255
Building improvements	5,673
Bank charges / Bond fees	400
Miscellaneous	100
Total operating disbursements	16,833
Excess of operating receipts over operating disbursements	120,962
Non-operating receipts (disbursements):	
Interest income	490
General Obligation Note:	
Principal payment	(95,000)
Interest payment	(4,845)
	(99,355)
Change in cash basis net assets	21,607
Net assets cash basis beginning of year	11,009
Net assets cash basis end of year	$32,616

See notes to financial statements.

EXHIBIT B

THE HEARTLAND GROUP

Statement of Indebtedness

For the year ended June 30, 2005

General obligation capital loan note:	Series 1994
Date of issue	March 1, 1994
Interest rates	3.40 – 5.10%
Amount originally issued	$800,000
Balance beginning of period	95,000
Issued during period	--
Redeemed during period	95,000
Balance end of period	$ --
Interest paid	$ 4,845
Interest due and unpaid	$ --

See notes to financial statements.

THE HEARTLAND GROUP

Notes to Financial Statements

June 30, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Heartland Group is a public authority established March 11, 1993, under a 28E agreement by a multi-county government consisting of Jefferson, Keokuk, Lucas, Wapello and Washington Counties. The Heartland Group operates under the Board of Directors' control and provides services to citizens in a five-county area. Services are provided to other counties depending on availability of units. Program services consist primarily of a 45-bed inpatient unit for persons with persistent and severe mental illness. The program is designed to assist residents to reach and maintain their maximum level of functioning and live their lives with dignity and respect.

As per the 2001 Management Agreement between the Group and Hillcrest Family Services, Inc., an Iowa non-profit corporation, the responsibility for the day to day operations of the facility shall be the administrative function of Hillcrest, as well as the continued licensing and adherence with all rules, standards and regulations promulgated by the Iowa Department of Inspections and Appeals and the Department of Human Services.

Reporting Entity

The financial statements include all funds of The Heartland Group. Accordingly, the criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes.

Fund Accounting

The accounts of the Group are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The Group uses the following fund in its activities:

Operating Fund

The Operating Fund is the general operating fund of The Heartland Group. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, the fixed charges and the capital improvement costs that are not required to be paid through other types of funds.

Basis of Accounting

The Heartland Group maintains its financial records on the basis of cash receipts and disbursements and the financial statements of The Heartland Group are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items.

Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with generally accepted accounting principles.

(2) DEPOSITS AND INVESTMENTS

The Heartland Group's deposits at June 30, 2005 were entirely covered by Federal depository insurance.

(3) RISK MANAGEMENT

The Heartland Group is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

FREDRICK J. HENSEL, P.C.
Certified Public Accountant
1052 West Madison Suite B • P.O. Box 842 • Washington, IA 52353 • (319) 653-7617 • FAX (319) 653-5739

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

To the Board of Directors of
The Heartland Group

I have audited the financial statements of The Heartland Group as of and for the year ended June 30, 2005, and have issued my report thereon, dated November 16, 2005. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with US generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The Heartland Group's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

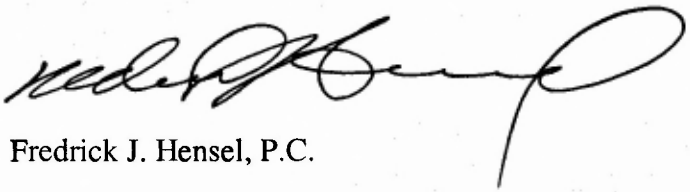
Comments involving statutory and other legal matters about the Group's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Group. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statues. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered The Heartland Group's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of The Heartland Group and other parties to whom the Group may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of The Heartland Group during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Fredrick J. Hensel, P.C.

November 16, 2005

THE HEARTLAND GROUP

Schedule of Findings

June 30, 2005

PART I Findings Related to the Financial Statements:

INSTANCE OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No matters were noted.

PART II Other Findings Related to Statutory Reporting:

No matters were noted.