THE HEARTLAND GROUP

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS

JUNE 30, 2012

THE HEARTLAND GROUP

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THE HEARTLAND GROUP

OFFICIALS
JUNE 30, 2012

Name	Title
Steve Siegel	Chairperson
Lee Dimmitt	Treasurer

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Heartland Group

We have audited the accompanying statement of cash receipts, disbursements and changes in net assets of The Heartland Group, as of and for the year ended June 30, 2012. This financial statement is the responsibility of The Heartland Group's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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.

As described in Note 1, this financial statement has been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of The Heartland Group as of June 30, 2012, and the respective 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 Auditing Standards, we have also issued our report dated March 4, 2013 on our consideration of The Heartland Group's internal control over financial reporting and on 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 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.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
March 4, 2013

FINANCIAL STATEMENT

EXHIBIT A

THE HEARTLAND GROUP

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN NET ASSETS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

OPERATING RECEIPTS:	
Facility rent payments	$ 93,500
OPERATING DISBURSEMENTS:	
Insurance	9,079
Professional fees	1,800
Capital improvements	25,754
Repairs and maintenance	17,712
Miscellaneous	402
Total operating disbursements	54,747
Excess of operating receipts over operating disbursements	38,753
Non-operating receipts:	
Interest income	174
Change in unrestricted cash basis net assets	38,927
Unrestricted cash basis net assets - Beginning of year	84,304
DISTRIBUTIONS:	
Distribution to Jefferson County	15,000
Distribution to Wapello County	15,000
Total distributions	30,000
Unrestricted cash basis net assets - End of year	$ 93,231

See Notes to Financial Statements

THE HEARTLAND GROUP

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 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 and Wapello Counties. The Heartland Group operates under the Board of Directors' control and provides services to citizens in the two-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.

In accordance with the 2008 Management Agreement between The Heartland 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 Family Services, Inc., 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 Iowa 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 Heartland 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 net assets. The Heartland Group uses the following fund in its activities:

Operating Fund – The enterprise 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

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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

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

In reporting its financial activity, the Organization applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The accounts of The Heartland Group, are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NOTE 2: CASH AND INVESTMENTS

The Heartland Group, had deposits in banks at June 30, 2012 that were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

NOTE 3: RISK MANAGEMENT

The Heartland Group is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Heartland Group's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Heartland Group's contributions to the Pool for the year ended June 30, 2012 were $9,079.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to $350,000 per claim. Claims exceeding $350,000 are reinsured in an amount not to exceed $2,650,000 per claim. For members requiring specific coverage from $3,000,000 to $12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to $150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

NOTE 3: RISK MANAGEMENT (Continued)

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

NOTE 4: MAJOR REVENUE SOURCE

The Heartland Group receives all of its operating receipts from Hillcrest Family Services, Inc.

NOTE 5: RENT INCOME

The Heartland Group has a lease agreement with Hillcrest Family Services, Inc. which expires June 30, 2013. The lease contains provisions for a one year renewal. The lease calls for a monthly payment to The Heartland Group of $8,500. Future minimum receipts required under the lease are as follows:

June 30, 2013	$	102,000

NOTE 6: EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 4, 2013, the date which the financial statements were available to be issued.

INDEPENDENT AUDITOR'S 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 of
The Heartland Group

We have audited the financial statements of the The Heartland Group, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 4, 2013. 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

Management of the Heartland Group is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The Heartland Group's internal control over financial reporting as a basis for designing our auditing procedures 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 Heartland Group's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Heartland Group'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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Heartland Group'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 or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management of The Heartland Group, others within the entity, the Board of Directors and 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 personnel of the The Heartland Group 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.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
March 4, 2013

THE HEARTLAND GROUP

SCHEDULE OF FINDINGS
JUNE 30, 2012

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

No matters were noted.