HEARTLAND CARES, INC.
PADUCAH, KENTUCKY

FINANCIAL STATEMENTS
With Independent Auditor's Report

YEARS ENDED JUNE 30, 2012 and 2011

TABLE OF CONTENTS

KEMPER
CPA GROUP LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Heartland CARES, Inc.
Paducah, Kentucky

We have audited the accompanying statements of financial position of Heartland CARES, Inc., (a nonprofit organization) as of June 30, 2012 and 2011 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Heartland CARES, Inc.'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 General of the United States. Those standards require that we plan and perform the audits 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heartland CARES, 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 our report dated March 11, 2013, on our consideration of Heartland CARES, Inc.'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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Heartland CARES, Inc.'s financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Kemper CPA Group LLP

Certified Public Accountants and Consultants
Paducah, Kentucky
March 11, 2013

333 Broadway ▪ Suite 1001 ▪ Paducah, KY 42001
Phone: (270)443-4400 Fax: (270)443-0963 kempercpa.com

BASIC FINANCIAL STATEMENTS

HEARTLAND CARES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash	$ 2,191	$ 48,148
Grants and contract receivables	269,219	159,067
Inventory	33,722	74,225
Prepaid expenses	20,562	51,955
Total Current Assets	325,694	333,395
PROPERTY AND EQUIPMENT		
Medical equipment	125,448	125,448
Leasehold improvements	161,837	151,093
Office furniture and fixtures	367,976	367,976
Vehicles	23,939	23,939
	679,200	668,456
Less accumlated depreciation	(592,594)	(526,505)
	86,606	141,951
OTHER ASSETS		
Restricted cash	-	9,585
TOTAL ASSETS	$ 412,300	$ 484,931
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 65,905	$ 94,109
Accrued payroll, taxes and fringe benefits withheld	32,954	38,055
Liability for compensated absences	19,258	21,707
Deferred revenue	131,818	39,145
Grants payable	66,474	66,474
Line of credit	9,292	46,000
Current portion long term debt	20,013	18,397
Total Current Liabilities	345,714	323,887
NON-CURRENT LIABILITIES		
Due to Kentucky Conference	3,232	9,585
Long term debt	3,197	23,211
Total Noncurrent Liabilitites	6,429	32,796
NET ASSETS		
Unrestricted - net assets	60,157	128,248
Total Net Assets	60,157	128,248
TOTAL LIABILITIES AND FUND EQUITY	$ 412,300	$ 484,931

The notes to financial statements are an integral part of this statement.

HEARTLAND CARES, INC.
STATEMENTS OF ACTIVITIES
For the Years ended June 30, 2012 and 2011

	2012	2011
REVENUES		
Grants/contract support	$ 1,806,420	$ 1,854,808
Insurance and other reimbursements	67,340	60,996
Other	85,474	37,631
Total revenues	1,959,234	$ 1,953,435
EXPENSES		
Program services	1,827,020	1,919,881
Support services	200,305	182,706
Total expenses	2,027,325	2,102,587
CHANGE IN NET ASSETS	(68,091)	(149,152)
BEGINNING NET ASSETS	128,248	277,400
ENDING NET ASSETS	$ 60,157	$ 128,248

The notes to financial statements are an integral part of this statement.

HEARTLAND CARES, INC
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30

	2012		
	Program Services	**Support Services**	**Total Expenses**
OPERATING EXPENSE			
Salaries	$ 518,289	$ 123,934	$ 642,223
Payroll taxes	52,985	11,653	64,638
Employee benefits	133,624	3,630	137,254
Physician services	225,357	-	225,357
Rental assistance and utilities	403,955	-	403,955
Other health support services	214,315	-	214,315
Medical and other supplies	47,141	-	47,141
Occupancy and administration	97,319	10,813	108,132
Travel	15,451	451	15,902
Professional fees	-	24,000	24,000
Repairs and maintenance	51,035	5,671	56,706
Telephone	8,069	897	8,965
Interest	-	4,778	4,778
Depreciation	59,480	6,609	66,089
Other	-	7,870	7,870
	$ 1,827,020	$ 200,305	$ 2,027,325

The notes to financial statements are an integral part of this statement.

HEARTLAND CARES, INC
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30

	2011		
	Program Services	**Support Services**	**Total Expenses**
OPERATING EXPENSES			
Salaries	$ 520,886	$ 108,353	$ 629,239
Payroll taxes	42,877	9,152	52,029
Employee benefits	132,284	15,169	147,453
Physician services	260,258	-	260,258
Rental assistance and utilities	331,780	-	331,780
Other health support services	412,385	-	412,385
Medical and other supplies	3,269	-	3,269
Occupancy and administration	91,935	10,215	102,150
Travel	13,098	542	13,640
Professional fees	-	22,630	22,630
Repairs and maintenance	39,042	4,337	43,379
Telephone	9,160	1,018	10,178
Interest	-	4,300	4,300
Depreciation	62,907	6,990	69,897
	$ 1,919,881	$ 182,706	$ 2,102,587

The notes to financial statements are an integral part of this statement.

HEARTLAND CARES, INC.
STATEMENTS OF CASH FLOWS
For the Years ended June 30,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (68,091)	(149,152)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	66,089	69,897
Change in assets and liabilities:		
Grants and contracts receivable	(110,152)	19,802
Inventory	40,503	(36,527)
Prepaid expenses	31,393	29,821
Accounts payable	(28,204)	21,924
Grants payable	-	21,589
Accrued payroll taxes and fringe benefits withheld	(5,101)	(18,551)
Liability for compensated absences	(2,449)	5,808
Due to Kentucky Conference	3,232	-
Deferred revenue	92,673	2,063
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	19,893	(33,326)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(10,744)	(7,464)
NET CASH (USED IN) INVESTING ACTIVITIES	(10,744)	(7,464)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(36,709)	46,000
Principal payments on long term debt	(18,397)	(16,912)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(55,106)	29,088
NET (DECREASE) IN CASH	(45,957)	(11,702)
CASH, BEGINNING OF YEAR	48,148	59,850
CASH, END OF YEAR	$ 2,191	$ 48,148

The notes to financial statements are an integral part of this statement.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Heartland CARES, Inc., (HCI) is a non-profit, non-stock corporation under Kentucky Revised Statues, Chapter 273. HCI's primary purpose is to conduct educational, supportive, and health-care related activities for persons infected with and/or affected by others infected with the human immunodeficiency virus (HIV), and/or diagnosed with acquired immunodeficiency syndrome (AIDS) and/or other debilitating diseases; to plan, establish, and administer a program of comprehensive early intervention health care and support services, and other appropriate programs.

Accounting Method

HCI maintains its books and these financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned while expenses are recognized in the period incurred.

Revenues

HCI receives substantially all of its grant revenue from federal agencies. HCI recognizes grant revenue to the extent of expenditures.

Funding sources may, at their discretion, request reimbursement for expenditures or return of funds, or both, as a result of non-compliance by HCI with the terms of the grants, contracts and regulations.

Contributions

Contributions received are recorded as temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. HCI has not received any contributions with donor-imposed restrictions, with the exception of funds used to purchase equipment in prior years. Grantors retain a reversionary interest in such property and equipment as well as the determination of use of any proceeds from subsequent sales of those assets.

Income Taxes

HCI is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct any unrelated business activities. Therefore, HCI has made no provision for federal or state income taxes in the accompanying financial statements. In addition, HCI has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

Cash and Cash Equivalents

Cash and cash equivalents consist entirely of amounts in demand deposits in a local financial institution.

Inventories

HCI maintains an inventory of gift cards that are used to assist clients in the purchase of needed supplies. Inventory is recorded at cost.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Donated assets are stated at fair value on the date donated. HCI generally does not capitalize assets with costs less than $1,000. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded. Depreciation is provided by the straight-line method over the estimated useful lives of the various classes of assets as follows:

	Years
Medical equipment	10
Leasehold improvements	40
Office furniture and fixtures	3-10
Vehicles	5

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising

Advertising costs are expensed as incurred. HCI incurred advertising expenses in the amount of $2,374 and $1,314 during the fiscal years end June 30, 2012 and 2011, respectively.

NOTE B – DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS

Custodial credit risk for deposits is the risk that in the event of a bank failure, HCI's deposits may not be returned or HCI will not be able to recover collateral securities in the possession of an outside party. HCI's investment policy requires all investments be made in accordance with applicable legal requirements with consideration of investment safety.

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, HCI's investing activities are managed under the direction of the Executive Director. Investing is performed in accordance with investment policies adopted by the Board of Directors complying with KRS 212.480.

During the year ended June 30, 2012, HCI's demand deposit carrying amount was $2,192. The balance per the bank was $59,970 which was fully insured by the FDIC as of June 30, 2012.

NOTE C – CHANGES IN PROPERTY AND EQUIPMENT ACCOUNT BALANCES

A summary of changes in General Fixed Assets at June 30 is as follows:

	2012			
	Balance as of June 30, 2011	**Increases**	**Decreases**	**Balance as of June 30, 2012**
Medical equipment	$ 125,448	-	-	125,448
Leasehold improvements	151,093	10,744	-	161,837
Office furniture and fixtures	367,976	-	-	367,976
Vehicles	23,939	-	-	23,939
	668,456	10,744	-	679,200
Accumulated depreciation	(526,505)	(66,089)	-	(592,594)
Total capital assets – net:	$ 141,951	$ (55,345)	$ -	$ 86,606

NOTE C – CHANGES IN PROPERTY AND EQUIPMENT ACCOUNT BALANCES (Continued)

	2011			
	Balance as of June 30, 2010	Increases	Decreases	Balance as of June 30, 2011
Medical equipment	$ 125,448	-	-	125,448
Leasehold improvements	148,543	2,550	-	151,093
Office furniture and fixtures	363,062	4,914	-	367,976
Vehicles	23,939	-	-	23,939
	660,992	7,464	-	668,456
Accumulated depreciation	(456,608)	(69,897)	-	(526,505)
Total capital assets – net:	$ 204,384	$ (62,433)	$ -	$ 141,951

NOTE D – LINE OF CREDIT

HCI has a $50,000 line of credit with Paducah Bank, Paducah, Kentucky. The line of credit had an interest rate of 5.00% and a maturity date of December 16, 2013, and is secured with a real estate mortgage on property owned by Heartland Foundation, Inc. The unused line of credit balance available at June 30, 2012 and 2011 was $40,708 and $0, respectively.

NOTE E – LONG-TERM DEBT

Long-term debt consists of the following at June 30,:

	2012	2011
Everbank installment note; secured by computer software; monthly payments of $1,462 including interest at 8.45%; maturing August 27, 2013	$ 19,433	$ 34,635
Everbank installment note; secured by computer software; monthly payments of $305 including interest at 8.45%; maturing July 27, 2013	3,777	6,973
	23,210	41,608
Less current maturities:		
Current Portion of Long Term Debt	(20,013)	(18,397)
	$ 3,197	$ 23,211

Future maturities of long-term debt are as follows:

Fiscal year ended June 30,	
2013	$ 20,013
2014	3,197
	$ 23,210

NOTE F – LEASES AND RELATED PARTY TRANSACTIONS

HCI leases its office facilities from the Heartland Foundation, Inc., a not-for-profit corporation established for the sole purpose of providing facilities to HCI. The Organization also leases apartments from unrelated landlords in the Paducah, Kentucky area to furnish housing for its clients.

NOTE F – LEASES AND RELATED PARTY TRANSACTIONS (Continued)

The lease for HCI's clinic and office facility has an original term of five years, beginning April 5, 2007, with subsequent five-year renewal periods at a monthly rent of $3,296. On March 1, 2011, HCI and Heartland Foundation, Inc. signed an amendment to the existing lease to adjust the monthly rent rate down to $2,750 with a maturity date of June 30, 2017. The amount paid to The Heartland Foundation, Inc. under the lease for the years ended June 30, 2012 and 2011 was $33,000 and $37,368, respectively. HCI has no accounts payable due to The Heartland Foundation, Inc. as of June 30, 2012.

Future minimum lease requirements for the clinic and office facilities are:

Fiscal year ended June 30,	
2013	$ 33,000
2014	33,000
2015	33,000
2016	33,000
2017	33,000
	$ 165,000

NOTE G – DISCLOSURES REGARDING STATEMENTS OF CASH FLOWS

Accounting Policy

For purposes of the Statement of Cash Flows, cash includes all unrestricted demand deposits.

There was $4,778 and $4,300 paid for interest expense during fiscal years ended June 30, 2012 and 2011.

NOTE H - RISK MANAGEMENT

HCI is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. To handle the risk of loss, HCI has purchased certain insurance policies. Its worker's compensation insurance is retrospectively rated.

NOTE I – CONCENTRATIONS

HCI is entirely dependent on federal, state, and local grants to support its programs and operations. During the year ended June 30, 2012 and 2011, HCI received the following grants:

	2012	2011
Ryan White, Title III (Part C)	$ 706,649	$ 541,390
Ryan White, Title II (Part B)	330,465	529,225
HOPWA	152,732	139,754
Supportive Housing	352,383	353,208
Supplemental Grant	20,000	19,541
HOME Grant	125,332	87,218
HEARTH	79,660	125,745
Other federal grants	-	12,833
Total Federal Grant Income	1,767,221	1,808,914
Other grants	30,699	45,894
TOTALS	$ 1,797,920	$ 1,854,808

The loss or reduction of grant funding could cause significant reductions in services or the elimination of programs operated by the Organization.

NOTE J –RETIREMENT PLAN

HCI offers to all employees a SIMPLE IRA retirement plan that requires employee contributions with matching employer contributions. The retirement expense reported in employee benefits under this plan during the years ended June 30, 2012 and 2011 was $15,937 and $17,703, respectively.

NOTE K - COMMITMENTS AND CONTINGENCIES

HCI receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose and in accordance with the terms of the grant, the grantors may request a refund of the monies advanced or refuse to reimburse the Organization for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, may be significant. Continuation of HCI's grant programs is predicated upon the grantors' satisfaction that the funds provided are being used as intended and the grantors' intent to continue their programs and related future funding to HCI.

Grantor agencies have not presently cleared/resolved items noted as findings and questioned costs in the fiscal year ending 6/30/11 audit report. Therefore, these items reported as grants payable at 6/30/11 are still included in grants payable at 6/30/12.

NOTE L – PRIOR PERIOD RESTATEMENT

During the year ended June 30, 2011, it was determined certain items had been reflected incorrectly in the financial statements of HCI in prior years. These items are summarized as follows:

	Effect of restatement on Unrestricted Beginning Net Assets
Duplicate reimbursements received in prior years from a local county health Agency and the Ryan White Grant Program representing a liability for refund to the Ryan White Grant Program at 7/1/10	$ (44,884)
The 6/30/10 audited statement of financial position reflected $145,863 (the undepreciated cost of property and equipment) as temporarily restricted net assets. Beginning net assets have been restated to correctly report unrestricted beginning net assets	145,863
	100,979
Beginning Unrestricted Net Assets at 7/1/10, as restated	176,421
TOTALS	$ 277,400

Also, during the year ended June 30, 2011, it was determined the Organization had not properly recorded medical software and its related debt in a prior year. The debt associated with this software was recorded as a long-term debt as described in Note E. The software and related accumulated depreciation was recorded with no net effect on net assets as of June 30, 2011.

NOTE M – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 11, 2013, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

KEMPER CPA GROUP LLP
Certified Public Accountants and Consultants

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*

Board of Directors
Heartland CARES, Inc.
Paducah, Kentucky

We have audited the financial statements of Heartland CARES, Inc. (HCI) as of and for the year ended June 30, 2012, and have issued our report thereon dated March 11, 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 HCI is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered HCI’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 HCI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of HCI's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 HCI's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies, 2012-2, 2012-3, 2012-6, 2012-7, 2012-8, 2012-9, 2012-10, 2012-11, 2012-12, 2012-13, and 2012-17, described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies, 2012-1 and 2012-5, described in the accompanying schedule of findings and question costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HCI’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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2, 2012-4, and 2012-8 through 2012-17.

333 Broadway ▪ Suite 1001 ▪ Paducah, KY 42001
Phone: (270)443-4400 Fax: (270)443-0963 kempercpa.com

HCI's response to the findings indentified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit HCI's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Agency's board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used for anyone other than these specified parties.

Kemper CPA Group LLP

Certified Public Accountants and Consultants
Paducah, Kentucky
March 11, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Heartland CARES, Inc.
Paducah, Kentucky

Compliance

We have audited Heartland CARES, Inc.'s (HCI) compliance, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of HCI's major federal programs for the year ended June 30, 2012. HCI's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the HCI's management. Our responsibility is to express an opinion on Heartland CARES, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HCI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of HCI's compliance with those requirements.

As described in items 2012-9 – 2012-17 in the accompanying schedule of finding and questioned costs, HCI did not comply with requirements regarding allowable costs, allowable activities, matching, subrecipient monitoring, reporting, and other special tests and related maintenance of documentation that are applicable to the following major federal programs:

Program Title	CFDA
Supportive Housing Program	14.235
Ryan White Title II (Part B)	93.917
Early Intervention with Respect to HIV Disease (Part C)	93.918

Compliance with such requirements is necessary, in our opinion, for HCI to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, HCI complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Heartland CARES, Inc., is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered HCI's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HCI's internal control over compliance.

333 Broadway ▪ Suite 1001 ▪ Paducah, KY 42001
Phone: (270)443-4400 Fax: (270)443-0963 kempercpa.com

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and one other deficiency we consider to be a significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-9, 2012-10, 2012-11, 2012-12, 2012-13, 2012-15, and 2012-17 to be material weaknesses.

A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-14 and 2012-16 to be significant deficiencies.

HCI’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit HCI’s responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, HCI’s board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used for anyone other than these specified parties.

Kemper CPA Group LLP

Certified Public Accountants and Consultants
Paducah, Kentucky
March 11, 2013

HEARTLAND CARES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title:	Federal CFDA Number	Pass-Through Grantor Number	Expenditures
Department of Housing and Urban Development:			
Passed through the Kentucky Housing Corporation			
Housing Opportunities for Persons with AIDS	14.241	HW11-0061-01	$ 114,866
Housing Opportunities for Persons with AIDS	14.241	KY HO-0013	37,866
Total for CFDA #14.241			152,732
Supportive Housing Program	14.235	KY0015B4I001003	201,942
Supportive Housing Program	14.235	KY0014B4I001003	170,441
Total for CFDA #14.235			372,383
Emergency Shelter Homeless Prevention and Rapid Re-Housing Program - Recovery Act	14.257	KY20090715-1401	79,660
HOME Investment Partnership Program	14.239	TB11-0061-01	125,332
Total U.S. Department of Housing and Urban Development			730,107
U.S. Department of Health and Human Services:			
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918	5 H76HA00208-13-01	706,649
Passed through the Commonwealth of Kentucky, Cabinet for Human Resources:			
Ryan White Title II (Part B)	93.917	PON2 728 0800006801 3	330,465
Total U.S. Department of Health and Human Services			1,037,114
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,767,221

HEARTLAND CARES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARD
FOR THE YEAR ENDED JUNE 30, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Heartland CARES, Inc. and is presented on the accrual method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

HEARTLAND CARES, INC.
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section I – Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the Heartland CARES, Inc..

2. Significant deficiencies and material weaknesses were disclosed relating to the audit of the financial statements.

3. Instances of noncompliance material to the financial statements of the Heartland CARES, Inc. were disclosed during the audit and are included at findings 2012-08 through 2011-12.

4. Material weaknesses were disclosed during the audit of internal control over major federal award programs.

5. The auditor's report on compliance for the major federal award programs for the Heartland CARES, Inc. expresses a qualified opinion.

6. There are audit findings relative to the major federal award programs of Heartland CARES, Inc.

7. The program tested as major program include:

Name	CFDA
Supportive Housing Program	14.235
Ryan White Title II (Part B)	93.917
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918

8. The threshold used for distinguishing Types A and B programs was $300,000.

9. Heartland CARES, Inc. did not qualify to be audited as a low-risk auditee.

Section II – Findings – Financial Statements Audit

Reference # 2012-1 – Lack of consideration regarding fiduciary responsibility over Kentucky Conference funds

Criteria
The Organization had a fiduciary duty over certain funds placed at the Organization to pay expenses relative to specific activities of the Kentucky Conference.

Condition
The Organization assumed a fiduciary responsibility to expend money relative to the Kentucky Conference in a manner defined by the Kentucky Conference. During the year under audit the Organization closed the account which had been used to account for these funds and deposited such funds into their operating account. A June 30, 2012 audit adjustment was required to reflect the payable to Kentucky Conference for $3,232, which represents the amount due to the Kentucky Conference for the Kentucky Conference funds transferred to HCI's operating account.

Cause
This condition was caused by the lack of adequately trained accounting personnel to balance/reconcile accounts.

Effect
Kentucky Conference funds, for which the Organization had a fiduciary responsibility, were transferred to the Heartland CARES, Inc. operating account.

Recommendation
As any excess money remaining at year end can be utilized in the subsequent year for Conference expenses, we recommend the Organization reduce the amount available for Conference expenses in the subsequent year by the $3,232 reflected in the current year as a payable to the Kentucky Conference.

Section II – Findings – Financial Statements Audit (Continued)

Management's Views and Corrective Action Plan
Management is developing procedures to monitor the money spent with regards to the Kentucky Conference.

Reference # 2012-2 – Internal control weakness over reconciliation of general ledger accounts

Criteria
Proper internal controls require statement of financial position accounts be reconciled to source documents supporting detail records to accurately reflect the financial position of the Organization.

Condition
The Organization failed to properly reconcile many statement of financial position accounts. We noted several instances where audit entries were needed to balance certain statement of financial position accounts with externally provided source documents.

Cause
This was caused by inadequate controls (i.e. lack of reconciliation) applicable to statement of financial position accounts.

Effect
The statement of financial position account and the related amount of increase (decrease) on the statement of activities is as follows:

Account Description		Amount
Line of Credit	$	(2,711)
Accrued PTO		(19,258)
Accumulated Depreciation		(66,089)
Prepaid Expense		(31,084)
Due to Kentucky Conference		(3,232)
Long-Term Debt		18,397
Payroll Tax Liabilities		2,500
Deferred Revenue		(87,672)
Total	$	(189,149)

As a result, management was not furnished with timely accurate financial information and financial reports furnished to grantors were not accurate as the effect of these adjustments resulted in a reduction of net assets of $189,149. Due to the effect on reporting to grantors, this is also considered a compliance finding.

Recommendation
We recommend the Organization put into place procedures to accurately and timely reconcile statement of financial position accounts.

Management's Views and Corrective Action Plan
Management is putting into place the proper procedures to ensure accounts are properly reconciled in a timely manner.

Reference # 2012-3 – Internal control weakness over reconciliation of Cash account

Criteria
Proper internal controls require statement of financial position accounts be reconciled to source documents to accurately reflect the financial position of the Organization.

Condition
We noted one instance where an audit entry in the amount of $6,039 was needed to balance the Organization's cash account to the June 30, 2012 bank reconciliation.

Section II – Findings – Financial Statements Audit (Continued)

Cause
This was caused by inadequate controls (i.e. deleting transactions, lack of reconciliation) applicable to the cash account.

Effect
The bank reconciliation and balance per the general ledger did not agree at June 30, 2012 which required year-end audit adjustments to correct is difference.

Recommendation
We recommend the Organization put into place procedures to accurately and timely reconcile the cash account to the bank statement received monthly.

Management's Views and Corrective Action Plan
Management has put into place the proper procedures to ensure the cash account is properly reconciled in a timely manner.

Reference # 2012-4 – Failure to timely and accurately file payroll tax reports

Criteria
Federal and state regulations require all employers accurately and timely prepare and submit quarterly IRS form 941 payroll and state payroll tax reports.

Condition
The IRS form 941 quarterly payroll tax reports for quarters ending 3/31/12 and 6/30/12 were not timely prepared and submitted to the Internal Revenue Service. In addition, Kentucky withholding and unemployment tax reports were not timely prepared and remitted for these same quarters.

Cause
The Organization's Accounting Manager remitted the required taxes with each payroll to the Internal Revenue Service but was not fully aware of the quarterly payroll tax reporting requirements. However, the Kentucky withholding and unemployment reports and taxes were not timely remitted.

Effect
The effect will most likely be a future tax notice with penalty and interest for late filing of returns.

Recommendation
We recommend filing the applicable payroll reports timely and remitting applicable payroll taxes timely.

Management's Views and Corrective Action Plan
Management agrees with this comment and has subsequently submitted appropriate forms, payroll tax reports and taxes.

Reference # 2012-5 – Bonus wages paid without proper supporting documentation

Criteria
All wages paid, including unusual or infrequent payments to employees, should be supported by proper documentation and approval.

Condition
Our testing of wages indicated 3 instances out of a sample of 60 payroll disbursements where $466 of "extra" pay was paid to employees without proper supporting documentation or documentation of supervisor approval.

Cause
During the year ended June 30, 2012 the Organization paid 3 employees "extra" pay to cover the case load of an employee who resigned from the Organization. This pay was not based on additional hours worked at their current rate of pay but was rather based on the portion of the case load these employees worked on.

Section II – Findings – Financial Statements Audit (Continued)

Effect
Hourly employees were paid for work completed, but not at their approved hourly rate. Although bonus wages are not disallowed within the wage and labor laws, any unusual pay should be approved by the employee's supervisor and evidence of this approval should be noted on the employee's timesheet.

Perspective
Prior management had asked these employees to assist with certain clients during a time between when a former employee left and a new employee could be hired. Inquiries of the current Interim Executive Director revealed he was aware of this occurrence as he was the Chairman of the Board at the time this occurred. This is an allowable cost per the grant agreements. The Organization should include in either the employee's personnel file or on the affected timesheets evidence of supervisor approval.

Recommendation
We suggest management note approval of any bonus pay to any employee for work completed over and above their normal job requirements.

Management's Views and Corrective Action Plan
This event occurred under prior management at the Organization. The current Interim Executive Director and Accounting Manager agree that any unusual or infrequent pay should have proper authorization and the Organization is putting into place procedures to address this matter.

Reference # 2012-6 – Journal entries with inadequate supporting documentation

Criteria
All journal entries posted in the accounting system should have an adequate description indicating their purpose and should also have adequate documentation supporting the accuracy, reason for the entry, and approval.

Condition
We noted journal entries, including those applicable to posting of receipts/deposits of insurance reimbursements, posted in the accounting records did not always have adequate descriptions or applicable supporting documentation attached.

Cause
This was caused by not having adequately trained accounting staff/bookkeepers.

Effect
This weakness increases risk of errors in financial reporting, unauthorized transactions being posted, and grantor requests for reimbursement of such items.

Recommendation
We recommend all journal entries include sufficient information to document the reason for the entry, who posted the entry, approval for the entry, and the applicable supporting data.

Management's Views and Corrective Action Plan
Management will implement procedures to ensure proper controls over insurance reimbursements are in place.

Reference # 2012-7 – Lack of segregation of duties

Criteria
In an adequate system of internal controls, the person responsible for balancing accounts (i.e. bank accounts, payables, receivables, etc.) should not be posting detail transaction activity in the accounts they also are responsible for balancing. In addition, adequately trained accounting staff/bookkeepers are necessary in order to establish and maintain adequate internal controls.

Section II – Findings – Financial Statements Audit (Continued)

Condition
The accountant/bookkeeper for fiscal year ending 6/30/12 posted detail transactions and was responsible for balancing the accounts where such transactions were posted. This creates a lack of segregation of duties.

Cause
This weakness was due to the limited number of personnel with accounting/bookkeeping skills.

Effect
This increases the risk of unauthorized transactions.

Recommendation
We suggest duties be properly assigned so that there is adequate segregation of duties with other mitigating controls in place where this is not practical. This may necessitate hiring additional qualified accounting personnel.

Management's Views and Corrective Action Plan
Management has staff changes in place for responsibilities in a segregated manner.

Reference # 2012-8 –Adequate controls are not in place for the preparation of financial reports, financial statements and related disclosures

Criteria:
A control deficiency exists when an entity does not have controls in place which would prevent or detect misstatements of financial reports, financial statements and related disclosures.

Condition:
The Organization's financial reports, financial statements and related disclosures were not always both accurate and timely.

Cause:
The Organization does not currently have employees who possess skills and knowledge necessary over preparation of financial reports, financial statements and related disclosures in accordance with generally accepted accounting principles.

Effect:
Material misstatements may occur and not be detected in the financial statements, related disclosures, or underlying records. Due to the effect on reporting to grantors, this is also considered a compliance finding.

Recommendation:
The Organization should consider providing additional training to an employee to develop suitable skill, knowledge, and/or experience in preparing and reviewing financial statements for external reporting in accordance with current standards. As an alternative recommendation, the Organization could outsource the preparation of the financial statements and related notes to an individual or entity which possesses and maintains the skills, knowledge and experience necessary to prepare financial statements and related disclosures in accordance with current standards.

Management's Views and Corrective Action Plan
Management has subsequently published an Accounting Policies and Procedures Manual, and the external reporting of financial statements is done on a monthly basis and presented for review to the Finance Committee and the Board of Directors.

HEARTLAND CARES, INC.
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section III – Findings and Questioned Costs – Major Federal Awards Programs

Reference # 2012-9 – Material weakness in internal control over compliance

	CFDA #
Supportive Housing Program	14.235
Ryan White, Title II (Part B)	93.917
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918

Criteria
Internal controls should be in place to provide reasonable assurance that all compliance requirements are met.

Condition
Heartland CARES, Inc. did not have controls in place to meet all requirements including those applicable to financial and other reporting and monitoring compliance with grant agreements and regulations applicable to its grant programs which led to compliance issues as indicated in the remaining portion of this schedule.

Cause
The Organization is under new management (i.e. an Interim Executive Director hired since June 30, 2012) who found many of these items to be attributed to previous management. Lack of knowledge of all applicable compliance requirements, inadequate internal controls, including controls over the related supporting documentation also contributed to this weakness.

Effect
The Organization did not have adequate control over compliance and was not in compliance with all requirements including those applicable to financial and other reporting and those set forth by laws, regulations, contracts, and grant agreements. This also contributed to the items described in the remaining portion of this schedule.

Recommendation
We recommend the Organization implement the recommendations noted in this report and maintain applicable supporting documentation as necessary to establish proper internal controls, including control over compliance and insure such controls are in place and are properly maintained.

Management's Views and Corrective Action Plan
Management understands the necessity for having a staff member responsible for grant compliance and management will employ such a staff member.

Reference # 2012-10 – Expenditures without proper supporting documentation

	CFDA #
Supportive Housing Program	14.235
Ryan White, Title II (Part B)	93.917
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918

Criteria
Internal controls should be in place to provide assurance disbursements/expenditures are properly supported by approved invoices or other appropriate documentation.

Condition
Out of a sample of 60 disbursements/expenditures, 1 totaling $1,664 did not have proper supporting documentation.

Cause
Inadequate controls over documentation and maintenance of records caused this problem.

Section III – Findings and Questioned Costs – Major Federal Awards Programs (Continued)

Questioned Costs
Included in this amount is $1,664 paid to Kentucky Unemployment which was charged to programs. Although payroll tax is normally an allowable cost, without supporting documentation we cannot determine if programs were charged with proper amounts for each program. Of the $1,664, the questioned cost amount applicable to each program is undeterminable.

Effect
This resulted in expenditures which were not properly documented by supporting records.

Recommendation
We recommend the Organization properly maintain supporting documentation for all expenditures.

Management's Views and Corrective Action Plan
The Organization has a new Interim Executive Director and Accounting Manager who have subsequently put procedures in place to ensure proper documentation of expenditures.

Reference # 2012-11 – Inadequate controls over vouchers/gift cards

	CFDA #
Ryan White, Title II (Part B)	93.917
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918

Criteria
The programs noted above allow expenditures for vouchers/gift cards provided adequate controls are in place over such items.

Condition
In fiscal year ended June 30, 2012 the Organization purchased additional vouchers/gift cards that were charged directly to the grant at time of purchase rather than as they were being used. These items were purchased while the Organization still had a substantial amount of unused/undistributed vouchers/gift cards on hand. The Organization purchased these vouchers and did not retain documentation supporting the reasoning or need for purchasing the cards.

Cause
This was caused due to lack of controls over purchasing voucher/gift cards, and requesting reimbursement for such items when ample inventory of these items was already on hand.

Questioned Costs

Ryan White, Title II (Part B)	$8,500
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	$8,792

Effect
This weakness resulted in purchasing vouchers/gift cards not currently needed by the Organization which could lead to the grantor agency requesting reimbursement for unsupported purchases of these vouchers/gift cards. Since these are in essence prepaid debit cards, they represent transfers of funds from cash to a prepaid debit card until participants actually use the cards.

Recommendation
We recommend the Organization obtain from the grantor agencies specific clarification as to whether the purchase of undistributed vouchers/gift cards should be classified as allowable costs at the time of purchase or only as allowable costs when distributed. We also recommend the Organization obtain a response from the grantor agencies regarding similar questioned costs noted in the prior year audit relative to vouchers/gift cards. In addition, we suggest the Organization develop controls including policies and procedures regarding reconciliation of inventory of vouchers/gift cards, coordination of purchases/orders of vouchers/gift cards with expected distribution of vouchers/gift cards, and reasonable levels of inventory of such items.

Section III – Findings and Questioned Costs – Major Federal Awards Programs (Continued)

Management's Views and Corrective Action Plan
Current management respects this finding but does disagree with these vouchers/gift cards being potential unallowable costs. Management understands the grants listed provide for the purchase and subsequent request for reimbursement at the time of the purchase of these vouchers/gift cards, and, so long as the vouchers/gift cards have not expired, they are allowable costs. At such time, if the vouchers/gift cards were to expire, then the issue of reimbursement to the grantor agency would need to be addressed.

Reference # 2012-12 – Allocation of Payroll Costs to Various Grants

	CFDA #
Ryan White, Title II (Part B)	93.917
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918
Supportive Housing Program	14.235

Criteria
Each of the above referenced grants allow for allocation of payroll costs to the program based upon an approved allocation method.

Condition
In fiscal year end June 30, 2012 we noted instances where the allocation of payroll costs to the above referenced programs were not consistent with the allocation of time noted on employee's timesheets.

Cause
This weakness is a result of inadequate controls over allocating payroll costs to the individual programs.

Questioned Costs
Amount undeterminable

Effect
The Organization could improperly charge costs to an individual program resulting in non-compliance with the grant agreement. The questioned costs associated with an over-allocation are unknown and undeterminable.

Recommendation
We recommend the Organization review with employees the importance of maintaining information relative to the different programs which the employee is working on each day. Management should approve timesheets which should then be submitted with this information to provide adequate documentation of approval and accurate requests for reimbursement of wages applicable to each applicable program.

Management's Views and Corrective Action Plan
Management is developing procedures for time sheet allocations that parallel to salary and grant allocations.

Reference # 2012-13 – Inadequate controls over expenditures

	CFDA #
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918

Criteria
An expenditure occurs when an asset is used or a liability is incurred or when a good or service is provided.

Condition
During our testing in expenditures specifically charged to a grant program, we noted 3 instances where expenses were charged before a good or service was provided to the Organization. In two of the instances the Organization recorded a liability for services to be provided at a date to be determined. In one instance the Organization recorded a liability from a quote to provide goods to the Organization. The total value of these expenditures was $14,175.

Section III – Findings and Questioned Costs – Major Federal Awards Programs (Continued)

Cause
This was caused by a combination of lack of controls over accounting for purchases of goods and services and a lack of understanding of accounting principles regarding recognition of liabilities and expenses.

Questioned Costs

Outpatient Early Intervention Services with Respect to HIV Disease, (Part C)	$14,175

Effect
The Organization overstated expenses and received program reimbursements in the amount of $14,175 of costs not yet incurred.

Recommendation
We recommend the Organization remit back to the grantor agency the amount for which reimbursements were received where goods or services will be provided to the Organization in the future with a corresponding future request for reimbursement from the program once the goods/services are received/provided.

Management's Views and Corrective Action Plan
In one instance the Organization subsequently received reimbursement from one Company as services were not provided. When this reimbursement check was received in fiscal year ended June 30, 2013, the Organization reduced the expenditures for which reimbursements were requested in that month. For the other two instances the Organization intends to handle those in the same manner of reducing expenditures and thus reducing the amount of the request for reimbursement in the future.

Reference # 2012-14 – Inadequate documentation supporting matching requirement

	CFDA #
Supportive Housing Program	14.235

Criteria
The grant agencies provide specific guidance on the level of matching the Organization must incur when participating in the grant program.

Condition
The Organization was under their required local matching level of 25 percent.

Cause
This condition was caused by the fact the previous management did not understand the matching requirement included in the grant documents and the requirement that such matching would need to have supporting documentation.

Questioned Costs

Supportive Housing Program	$1,415

Effect
The Organization did not comply with the program's minimum required level of local match.

Recommendation
We recommend the Organization comply with the local match requirement of the program and maintain adequate documentation supporting such compliance.

Management's Views and Corrective Action Plan
Current management understands the importance of being able to support any service provided and request for reimbursement made and is working on a process to maintain the needed documentation.

Section III – Findings and Questioned Costs – Major Federal Awards Programs (Continued)

Reference # 2012-15 – Activities of subrecipients

	CFDA #
Supportive Housing Program	14.235

Criteria
The grant agreements provide for the Organization to reimburse subrecipients certain allowable costs.

Condition
The Organization has entered into an agreement with two local agencies to provide funding through their Supportive Housing grant. The Organization did not monitor the eligibility and other compliance requirements of the participants of the two pass-thru agencies.

Cause
This condition was caused due to the Organization relying solely on site visit conducted by the Kentucky Housing to annually review compliance and related documentation maintained at the two pass-thru agencies.

Effect
The Organization did not comply with the program's monitoring requirement of subrecipients.

Recommendation
We recommend the Organization comply with the monitoring requirement of pass-thru funding and maintain adequate documentation supporting such compliance. While the Organization may contract with Kentucky Housing to assist in monitoring of subrecipients, the ultimate responsibility for this falls upon the Organization.

Management's Views and Corrective Action Plan
Management has procedures in place to monitor the requirements for clients as subrecipients.

Reference # 2012-16 – Inadequate documentation of income levels

	CFDA #
Ryan White, Title II (Part B)	93.917
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918

Criteria
The programs noted above allow the Organization to charge for services based on a sliding fee scale based on the percentage of poverty levels.

Condition
We noted certain instances where the Organization did not maintain the required documentation of income levels for certain clients.

Cause
This was caused in some instances where the program participant refused to provide the documentation and in some instances where the Organization failed to follow their internal procedures of maintaining such documentation.

Questioned Costs
Amount undeterminable

Effect
This weakness could result in charging program participants for services when they are unable to pay or not charging program participants the proper amount.

Section III – Findings and Questioned Costs – Major Federal Awards Programs (Continued)

Perspective

The Organization's internal policy regarding the compliance requirement follows:

> The Organization has developed a process where certain documentation, including evidence of income level, is to be maintained within the client files. The grant agreement requires the Organization to only charge for services based on a sliding fee scale applicable to various income levels and, as such, will allow the Organization to charge 100% of the fee when a client is able to pay. The Organization follows this requirement and will charge the full fee when the program participant refuses to provide income level documentation. However, if a program participant refuses to pay the fee, the Organization will not pursue collection through any other avenue and will not discontinue service for refusal to pay.

Recommendation

We recommend the Organization follow their own policies to maintain documentation of income level in the program participant files or documentation of why such program compliance requirements and support is not being maintained.

Management's Views and Corrective Action Plan

Current management is aware of how the sliding fee scale is designed to work and utilizes it when income levels are documented. However, as their current practice is to continue providing service without regards to refusal to pay or ability to pay, they will continue to ask for documentation of income level but will not turn a patient away for failure to provide.

Reference # 2012-17 – Inadequate controls over grant funding advances

	CFDA #
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918

Criteria

Grant funds advanced should be taken into consideration when making requests for reimbursements.

Condition

The Organization received advanced grant funding for this program. Subsequently, the Organization was required to begin making requests for future grant funding based on expense reimbursement requests. In the process of making this change to expense reimbursement reporting, the Organization failed to take all advance funding previously received into account when making their expense reimbursement grant requests. As a result, the Organization had $87,673 of grant funds received in excess of expenditures for this program in fiscal year end June 30, 2012. Since the Organization has renewed its grant for this program through June 30, 2013, the $87,673 is included in deferred revenue on the statement of financial position at June 30, 2012.

Cause

This was caused by lack of trained personnel to properly generate, record, and monitor requests for grant reimbursements.

Effect

Current year grant funds were not timely spent, but reflected as deferred revenue after an $87,673 audit adjustment, and grantors and management were not provided accurate timely financial reports.

Recommendation

We recommend requests for reimbursements be made only after accounting for all previous advances and expenditures.

Managements Views & Corrective Action Plan

Management is putting into place the procedures to ensure accounts are properly reconciled in a timely manner.

HEARTLAND CARES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Section II – Findings – Financial Statements Audit

Reference # 2011-1- Expenditures without proper supporting documentation

Current Status
This item is still present in fiscal year-end June 30, 2012 and is included at *Reference #2012-10*

Reference # 2011-2 – Erroneous omission of bank account from HCI's general ledger

Current Status
This item was corrected in fiscal year-end June 30, 2012.

Reference # 2011-3 – Internal control weakness over voided checks and checks clearing before issuance date

Current Status
This item was corrected in fiscal year-end June 30, 2012.

Reference # 2011-4 – Failure to timely and accurately file payroll tax reports

Current Status
This item is still present in fiscal year-end June 30, 2012 and is included at *Reference #2012-4*

Reference # 2011-5- Inadequate internal controls over personnel file documentation

Current Status
This item was corrected in fiscal year-end June 30, 2012.

Reference # 2011-6 – Earned overtime not paid to employees

Current Status
This item was corrected in fiscal year-end June 30, 2012.

Reference # 2011-7 – Inadequate controls over receipts and deposits of insurance reimbursements

Current Status
This item was corrected in fiscal year-end June 30, 2012.

Section III – Findings and Questioned Costs – Major Federal Awards Programs

Reference # 2011-8 – Material weakness in internal control over compliance

	CFDA #
Supportive Housing Program	14.235
Ryan White, Title II (Part B)	93.917
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918

Current Status
This item is still present in fiscal year-end June 30, 2012 and is included at *Reference #2012-9*

HEARTLAND CARES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Reference # 2011-9 – Payment of wages without a supporting timesheet

	CFDA #
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918

Current Status
This item was corrected in fiscal year-end June 30, 2012.

Reference # 2011-10 – Excess reimbursements

	CFDA #
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918

Current Status
This item was corrected in fiscal year-end June 30, 2012.

Reference # 2011-11 – Inadequate controls over vouchers/gift cards

	CFDA #
Ryan White, Title II (Part B)	93.917
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918
Supportive Housing Program	14.235

Current Status
This item is still present in fiscal year-end June 30, 2012 and is included at *Reference #2012-11*

Reference # 2011-12 – Allocation of Indirect Costs to Various Grants

	CFDA #
Ryan White, Title II (Part B)	93.917
Outpatient Early Intervention Services with Respect to HIV Disease (Part C)	93.918
Supportive Housing Program	14.235

Current Status
This item is still present in fiscal year end June 30, 2012 and is included at *Reference # 2012-12*.