

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF INDIANA
INDIANAPOLIS DIVISION

UNITED STATES SECURITIES)
AND EXCHANGE COMMISSION,)
)
Plaintiff,)
)
KENNETH R. PAYNE,)
JOHANN M. SMITH,)
DANIEL G. DANKER, CONSTANCE)
BROOKS-KIEFER,)
HEARTLAND FINANCIAL SERVICES,)
INC., AND JMS INVESTMENT)
GROUP, LLC.)
)
Defendants.)

Civil Action No. IP00-1265 C -T/K

RECEIVER’S FINAL REPORT OF ACTS AND TRANSACTIONS

James A. Knauer, the Receiver for Heartland Financial Services, Inc., and JMS Investment Group, LLC, Defendants herein¹, in support of *Receiver’s Final Report of Acts and Transactions* states:

1. The undersigned was appointed Receiver for Heartland Financial Services, Inc. (“Heartland”) and JMS Investment Group, LLC (“JMS”) on August 21, 2000.
2. The Order appointing the Receiver directed that after the filing an initial inventory and appraisal of all property and assets in his possession or in the possession of others (the “Inventory Report”) the Receiver should file reports of his acts and transactions (the “Activity Reports”) in his official capacity as Receiver.

¹ On December 26, 2000, the Court consolidated the assets and liabilities of the following companies: *Aero Technologias Ltd., Atlas Income Fund, LLC, BMC Investment Group, LLC, Caribbean Federal Trust, Ltd., Caribbean Federal Services, Ltd., Caribbean Financial Services, Caribbean Investments International, Ltd., Celtic Centre II, Ltd., Charmar, Ltd., Dolphin International Development, Ltd., Dolphin Peninsula Partners, First Fidelity Trust, Ltd., First International Limited, Heartland Advisory Services, Inc., Heartland Financial Services, Inc., Heartland International Trust Services, Ltd., Heartland Money Management of Florida, Inc., International Leisure Centers, Inc., JMS Investment Group, LLC, KJL Ltd. of Belize, Lincoln Fidelity Escrow Services, MDS Investment Ltd., PMK, Ltd., RMP, Ltd., Terens, Ltd., 1st Century Bank Group, Ltd., 21st Century International Bank & Trust, Ltd. of Grenada, 21st Century International Advisors, Inc., 21st Century International Advisors of Bermuda, Ltd., 21st Century International Advisors of Ireland, Ltd., 21st Century Personnel, LLC, Universal Financial Services, Ltd* and on July 5, 2001 the Court expanded the Receiver’s authority to include the assets of Kenneth R. Payne.

3. This is the Receiver's sixth and final report.

BACKGROUND

4. Upon his appointment, the Receiver began to take possession of the assets of Heartland and JMS. To assist him in this endeavor he engaged, with the Court's approval, the accounting firm of BGBC Partners, PC and the law firm of Kroger Gardis & Regas, L.L.P.

5. The Receiver maintained a website for the benefit of the Heartland Investors and other creditors at www.heartlandfinancialinfo.com. The website continues to be maintained.

6. The Receiver and his counsel communicated with hundreds of investors and directly with creditors providing them updates on the status of the case and recording any changes in their contact information.

7. On July 20, 2006, the Receiver sent a mass mailing to the claimants updating them on the status of the Receivership and notifying them that the Receiver's Fifth Report of Action and Transactions had been posted on the Heartland Companies website.

8. The SEC has previously requested that the Receiver not close the Receivership until it had obtained its final injunctive relief against the Defendants Danker and Payne, however now that partial injunctive relief has been granted and given the long delay since the last distribution to creditors, the Receiver sees no reason not to file his final report at this time.

FINAL ACCOUNTING

9. Attached hereto are three reports. The first report, Exhibit "A", is a summary of the Receivership Cash Flows. The second report, Exhibit "B", is a listing of all income and disbursements in which each item of income or expense is "categorized". The Third Report is a listing of each deposit and disbursement by date received or incurred, or put more simply, the Receivership check register. For example, the Summary Report (Ex"A") shows *Litigation Expenses / Deposition Exp of \$4,452.22*. These expenses are itemized in Exhibit "B" on page 25 which shows the cost of each deposition and the name of the

deponent. The first item under deposition expense is an entry the deposition of "Gambert" for \$232.10.

ASSET COLLECTION AND LIQUIDATION

10. *Miscellaneous US Bank Accounts and Investments.* Heartland owned illiquid investment units in several partnerships and small bank accounts around the United States, many of which were held in the names of Danker and Payne for Heartland's benefit. The Receiver has sold all investments for which a market exists and liquidated all bank accounts. The total amount collected to date from all investment and banking sources is \$590,340.73².

11. *Restitution Income.* The Receiver has been the recipient of irregular payments of restitution monies from the Clerk of the United States District Court. Currently these payments total the sum of \$5,023.61. Upon Closure of the Receivership, the Receiver will provide a report to the United States Attorney's office of the allowed amounts of investor claims so the future distributions can be made by the District Court or the United States Attorney directly to the investor victims.

Investor Claims for Repayment of Fictitious Profits

12. *Settlement of Investor Claims.* As previously reported, the Receiver settled many cases brought against investors who received distributions in excess of their principal investment. Aall of the claims in litigation are disposed of and the settlement funds collected. The total of all collections by the Receiver is the sum of \$2,738,955.53³. The Receiver also obtained a timeshare in Gatlinburg, Tennessee as a result of a settlement reached in a recovery litigation. At the time of the last report, the timeshare was listed for sale with a timeshare sales company, as well as several "for sale by owner" websites. After being listed for over a year and a half at increasingly lower prices with no quality leads, it

² Receivership Cash Flow Report, attached, (see Items "Acquired Funds", "Other Inc." Untagorized Inflows.").

³ Receivership Cash Flow Report, attached, (see Item "Investor Repay") also see the Itemized Categories Report for a separate listing of each settlement. .

was determined that the annually payable timeshare fees were roughly the same amount as the listing price and the timeshare was released back over to the timeshare syndicator in satisfaction for unpaid annual fees.

13. *Liquidation of Personal Property.* All of the personal property of the Heartland Companies or the individual Defendants has been liquidated and reduced to cash. Since the Receiver's last Activity Report, the following personal property has been liquidated.

<i>Property Description</i>	<i>Amount</i>
Necklace	860.00
Bracelet	1,200.00
Ring	1,200.00
TOTAL	3,260.00

14. The total amount collected to date from the sale of assets of the Heartland Companies and their principals is \$479,617.67⁴.

15. *Total Receivership Income.* The total income chargeable to the Receiver from all sources is the sum of Three Million, Nine Hundred Thirteen Thousand, Five Hundred Ninety-Eight Dollars and Forty-Seven Cents (\$3,913,598.47).⁵

ADMINISTRATION

16. *Distributions to Investors.* The Receiver has previously distributed to investors and other creditors, per prior orders of this Court, the sum of Two Million, Six Hundred Thirteen Thousand, Seven Hundred Twenty-four dollars and Fifty-Three cents (\$2,613,724.53).

17. *All Other Expenses Paid.* All other expenses of the Receivership have been

⁴ Heartland Cash Flow Report, Ex. "A", (see Item "Asset Sales").

⁵ *Id.* See "Total Inflows"

paid with the exception of final allowance of professional fees. To date the Receiver has disbursed the sum of Three Million, Eight Hundred Thirty Eight Thousand, Three Hundred Twenty-Four Dollars and Thirteen cents (\$3,838,324.13).

18. *Professional Fees.* The Receiver and his law firm will be filing requests for payment of fees and expenses at or near the time of the filing of this report. For the period covering June 1st 2006 through February, 2011, a period of five years. As will be evident from the applications, the majority of work in the most recent years has been performed by paralegals at reduced rates. The Receiver's counsel's fees will approximate \$26,000.00 and \$2,700 in expenses and the Receiver's fees will approximate \$8,000.00.

19. *Funds on Hand.* The Receiver has on hand the sum of Seventy-five Thousand, Two Hundred, Seventy-Four Dollars and Thirty Four cents (\$75,274.34). See Exhibit "A" at page 2, "Overall Total".

DISTRIBUTION TO CREDITORS

20. Assuming the requested professional fees are allowed, The Receiver intends to file a motion to distribute funds in the approximate amount of \$38,000.00 to investors and creditors shortly following or simultaneously with this Report.

NOTICE TO CREDITORS AND THE PUBLIC

21. This report will be posted on the Heartland website within three business days of its filing.

THEREFORE the Receiver requests that the Court approve his *Receiver's Final Report of Acts and Transactions* and for all other proper relief.

/s/ James A. Knauer
James A. Knauer, Receiver
Attorney #5436-49

CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing has been served upon the following parties by the Court's Electronic Case Filing System or by depositing a copy of same in the United States Mail, first class postage pre-paid, on this 8 day of February, 2011:

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/s/ James A. Knauer

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