The Heartland Institute

Audited Financial Statements

Year Ended December 31, 2009 and 2008

The Heartland Institute

Table of Contents

Audited Financial Statements

Independent Auditors Report 1

Statement of Financial Position 2

Statement of Activities and Changes in Net Assets 3

Statement of Functional Expenses 4

Statement of Cash Flows 5

Notes to Financial Statements..6-10

TIGHE, KRESS & ORR
Certified Public Accountants

To The Board of Directors
The Heartland Institute
Chicago, Illinois 60603

Independent Auditors Report

We have audited the accompanying statement of financial position of The Heartland Institute (a nonprofit organization) as of December 31, 2009 and 2008, and the related statement of activities and changes in net assets, statement of functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Heartland Institute as of December 31, 2009 and 2008 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.

Tighe, Kress & Orr, PC

Elgin, Illinois
May 7, 2010

1595 WELD ROAD • SUITE 9 • ELGIN, IL 60123 • P: 847.695.2700 • F: 847.695.2748 • WWW.TKOCPA.COM

The Heartland Institute
Statement of Financial Position
December 31, 2009 and 2008

ASSETS	December 31, 2009	December 31, 2008
Current assets:		
Cash and cash equivalents (Note 1)	$ 690,283	$ 136,726
Prepaid expenses	49,735	34,133
Total current assets	740,018	170,859
Property and equipment, at cost (Note 2)		
Office equipment	155,482	149,884
Office furniture	16,764	16,764
Leasehold improvements	53,907	53,907
Artwork	12,250	-
Less accumulated depreciation	(173,970)	(154,469)
	64,433	66,086
Other assets		
Security deposits	10,911	6,000
	10,911	6,000
Total assets	$ 815,362	$ 242,945
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 108,990	$ 58,415
Payroll liabilities	17,933	21,380
Deferred revenue (Note 5)	-	8,562
Total liabilities	126,923	88,357
Net assets:		
Unrestricted	457,863	124,012
Temporarily restricted (Note 6)	230,576	30,576
Permanently restricted	-	-
Total net assets	688,439	154,588
Total liabilities and net assets	$ 815,362	$ 242,945

The accompanying notes are an integral part of the financial statements.

The Heartland Institute
Statement of Activities and Changes in Net Assets
Years ended December 31, 2009 and 2008

	December 31, 2009				December 31, 2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue received								
Contributions	$ 6,163,552	200,000	-	$ 6,363,552	7,659,414	-	-	$ 7,659,414
Publications/research	60,627	-	-	60,627	24,476	-	-	24,476
Advertising	14,101	-	-	14,101	11,686	-	-	11,686
Fundraising events	102,198	-	-	102,198	46,361	-	-	46,361
In-Kind Contributions	136,135	-	-	136,135	-	-	-	-
Other events	134,759	-	-	134,759	115,547	-	-	115,547
Premiums	315	-	-	315	444	-	-	444
Interest income	58,710	-	-	58,710	17,099	-	-	17,099
Gain/loss market value	259	-	-	259	5,562	-	-	5,562
Total revenue	6,670,656	200,000	-	6,870,656	7,880,589	-	-	7,880,589
Expenses								
Program services	5,276,043	-	-	5,276,043	6,523,046	-	-	6,523,046
Support services	540,033	-	-	540,033	487,671	-	-	487,671
Fundraising services	520,729	-	-	520,729	601,939	-	-	601,939
Total expenses	6,336,805	-	-	6,336,805	7,612,656	-	-	7,612,656
Change in net assets	333,851	200,000	-	533,851	267,933	-	-	267,933
Net assets, beginning of year	124,012	30,576	-	154,588	(113,345)	-	-	(113,345)
Prior period adjustment (Note 10)	-	-	-	-	(30,576)	30,576	-	-
Restated net assets, beginning of year	124,012	30,576	-	154,588	(143,921)	30,576	-	-
Net assets, end of year	$ 457,863	230,576	-	$ 688,439	124,012	30,576	-	$ 154,588

The accompanying notes are an integral part of the financial statements.

The Heartland Institute
Statement of Functional Expenses
Years ended December 31, 2009 and 2008

	---------------- Programs ----------------			Total				
Expenses:	Publications/ Editorial	Government Relations	Public Relations	Program Services	Support Services	Fundraising Services	Total Expenses December 31, 2009	Total Expenses December 31, 2008
Salaries and wages	$ 264,065	341,721	212,664	818,450	378,656	302,128	$ 1,499,234	$ 1,427,468
Benefits	23,750	23,183	14,281	61,214	34,345	27,491	123,050	93,224
Payroll taxes	19,478	25,858	15,045	60,381	28,005	22,120	110,506	105,458
Accounting/payroll fees	-	-	-	-	10,529	-	10,529	10,820
Supplies/furniture/equipment	43,955	1,248	2,879	48,082	4,427	2,470	54,979	15,455
Telephone	11,462	2,292	13,808	27,562	2,176	6,973	36,711	27,649
Postage and shipping	628,848	7,142	17,241	653,231	1,830	16,419	671,480	1,009,142
Occupancy	68,614	13,723	65,184	147,521	10,292	13,723	171,536	171,977
Equipment rental/maintenance	9,270	1,854	8,806	19,930	1,390	1,854	23,174	27,458
Printing and publications	506,945	6,287	5,782	519,014	512	21,318	540,844	1,011,366
Travel	3,595	23,398	69,497	96,490	4,489	50,121	151,100	238,479
Conferences/meetings	1,900	55,825	1,159,076	1,216,801	-	50,368	1,267,169	1,281,248
Interest	-	-	-	-	2,140	-	2,140	2,727
Depreciation	-	-	-	-	19,501	-	19,501	19,099
Other Expenses								
Advertising	-	-	338,011	338,011	270	1,000	339,281	403,924
Special Project Management	-	-	165,000	165,000	-	-	165,000	
Editors, writers and speakers	356,254	30,250	380,099	766,603	11,735	1,750	780,088	832,168
Newswire/clipping services	-	27,606	-	27,606	-	-	27,606	50,754
Web site, DVD duplication	139,919	-	-	139,919	-	-	139,919	612,527
Library/subscriptions	320	2,430	863	3,613	145	2,994	6,752	12,560
Memberships	-	30,800	775	31,575	160	-	31,735	24,080
Government/bank fees	-	-	-	-	29,168	-	29,168	10,325
Survey	-	-	16,000	16,000	-	-	16,000	3,524
Software	-	-	4,040	4,040	-	-	4,040	24,824
Moving expenses	-	-	-	-	263	-	263	14,328
Contributions/grants	-	-	115,000	115,000	-	-	115,000	182,072
Total Expenses	$ 2,078,375	593,617	2,604,051	5,276,043	540,033	520,729	$ 6,336,805	$ 7,612,656
Percentage of total	33%	9%	41%	83%	9%	8%	100%	

The accompanying notes are an integral part of the financial statements.

The Heartland Institute
Statement of Cash Flows
Years ended December 31, 2009 and 2008

		December 31, 2009		December 31, 2008
Cash flow from operating activities:				
Change in net assets	$	533,851	$	267,933
Add items not requiring an outlay of cash:				
Depreciation		19,501		19,099
(Increase) decrease in current assets:				
Accounts receivable		-		10,626
Prepaid expenses		(15,602)		11,790
Increase (decrease) in current liabilities:				
Accounts payable		50,575		(200,144)
Payroll liabilities		(3,447)		21,380
Security deposit		(4,911)		-
Deferred revenue		(8,562)		8,562
Net cash provided by (used in) operating activities		571,405		139,246
Cash flow from investing activities:				
Capital expenditures				
Equipment and furniture		(17,848)		(3,734)
Net cash provided by (used in) investing activities		(17,848)		(3,734)
Cash flow from financing activities:		-		-
Net cash provided by (used in) financing activities		-		-
Increase (decrease) in cash		553,557		135,512
Cash and cash equivalents balance, beginning of year		136,726		1,214
Cash and cash equivalents balance, end of year	$	690,283	$	136,726
Interest Expense:	$	2,140	$	2,727

The accompanying notes are an integral part of the financial statements.

The Heartland Institute
Notes to Financial Statements
December 31, 2009

Note 1- Summary of Significant Account Policies

Nature of Activities: The Heartland Institute is an Illinois not-for-profit corporation organized exclusively for charitable and educational purposes. Its main purpose is to inform and educate the public on research of past and existing public policies and the effects and results of those policies and free market or private sector alternatives. The Organization's programs are supported primarily by contributions from individuals, businesses, and foundations.

Method of Accounting: The financial statements of The Heartland Institute have been prepared on the accrual basis of accounting and in accordance with United States Generally Accepted Accounting Principles applicable to non-profit organizations. Revenues are recognized as they are earned and expenses as they are incurred.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Temporarily restricted net assets represent net assets subject to donor imposed restrictions which will either be met by the organization's actions or the passage of time. Temporarily restricted net assets are reclassified to unrestricted net assets when the restrictions are met or have expired. These reclassifications are reported in the statement of activities as net assets released from restrictions. At December 31, 2009 and 2008, The Heartland Institute had temporarily restricted net assets of $230,576 and $30,576 respectively.

Permanently restricted net assets represent funds subject to the restrictions of gift instruments requiring the principal to be maintained intact. Investment income may be used for operation and therefore is recorded as unrestricted revenue. The Heartland Institute does not have permanently restricted net assets as of December 31, 2009 and 2008.

Note 1- Summary of Significant Account Policies (continued)

Contributions: The Heartland Institute accounts for contributions in accordance with the recommendations in SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions, grants and contracts received are recorded as unrestricted, temporarily restricted, or permanently restricted support and revenue, depending on the existence and/or nature of any donor restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by donors. Unrestricted contributions are recognized when received.

All donor-restricted support and revenues are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (such as when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets released from restrictions.

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.

Cash and Cash Equivalents: The Heartland Institute defines cash, for the purposes of reporting cash flows, as cash on hand, amounts held at financial institutions, and short-term highly liquid investments that are readily convertible to known amounts of cash. Investments with an original maturity of three months or less are considered short-term for these purposes.

Property and Equipment: Property and equipment are stated at cost, less accumulated depreciation. The Heartland Institute follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of $500. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets.

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits: The Heartland Institute maintains its cash balances in several bank accounts. Accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Heartland Institute's bank has elected to be part of the FDIC's Transaction Account Guarantee Program (TAGP). The TAGP provides for a temporary full guarantee by the FDIC for all non-interest bearing accounts. At December 31, 2009 and 2008 the Organization had no accounts in excess of the FDIC insured limits.

Note 1- Summary of Significant Account Policies (continued)

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Accounting and Pledges Receivable: Accounts receivable are stated at the amount management expects to collect from outstanding balances and pledges. Management provides for probable uncollectible amounts through a provision for bad debt expense based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collections efforts are written off to bad debt expense. There were no bad debt write-offs or accounts deemed uncollectible for the years ended December 31, 2009 and 2008.

Donated Property and Services: Donations received in property and services other than cash are recorded at their fair market value on the date of the gift. Donations in property and services whose fair market values are not objectively determinable are omitted from the financial statement in accordance with generally accepted accounting standards.

Income Tax Status: The Heartland Institute is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. Accordingly, a provision for income taxes has not been made on the financial statements.

Note 2 – Fixed Assets

Property and equipment at December 31, 2009 consist of the following:

Non-depreciable:	
Artwork	$12,250
Depreciable:	
Office furniture	16,764
Office equipment	155,482
Leasehold improvements	53,907
Less accumulated depreciation	173,970
Net property and equipment	$ 64,433

Depreciation expense for the years ended December 31, 2009 and 2008 was $19,501 and $19,099 respectively.

Note 3 – Lease Commitments

The Heartland Institute entered into a lease extension for its headquarters effective June, 1, 2008 through January 31, 2012. Monthly base rent payments are currently $7,953 per month. Management entered into a new lease to rent additional space at the same location effective June 14, 2009 through January 31, 2012. Monthly base rent payments are currently $5,366 per month. Rent expenses amounted to $157,903 in 2009.

The Organization also entered into two equipment – operating leases:

1. A photocopier lease was entered effective April 1, 2006 through March 31, 2011 for $1,397 per month.
2. A postage machine lease was entered effective May 2007 through April 2011 for $389 per quarter.

Following are the minimum future lease commitments:

Period Ended	Amount
December 31, 2010	180,939
December 31, 2011	172,078
December 31, 2012	14,130
December 31, 2013	-
December 31, 2014	-
	367,147

Note 4 – Concentrations

Approximately 35% and 58% of The Heartland Institute's total support and revenues for the years ended December 31, 2009 and 2008 respectively, came from contributions from a single donor. Any substantial loss of donations from this particular donor could significantly affect the Organization's range of services provided.

Note 5 – Deferred Revenue

Deferred Revenue is fees collected during the year for events held in the following year. Total deferred revenue for December 31, 2009 and 2008 is $0 and $8,562.

Note 6 – Fund Balance – Temporarily Restricted

Prior to 1997, the estate of Franklin Butcha executed a note under the charitable remainder trust provision of the Internal Revenue Code. Interest of 7.0% per annum is paid quarterly to the beneficiary of Franklin Butcha estate (his spouse) until her death. The principal loan of $25,000 plus previously accrued interest of $5,576 prior to Franklin's death for a grand total of $30,576 was recognized as other income in 1996. Since then income and interest expense has been recorded through the unrestricted fund balance. Any present value adjustments to the bequest as with discounted cash flow adjustment were deemed insignificant.

Note 7 – Contingencies

Under Illinois unemployment compensation regulation, the Organization has been recognized as self-insured for the purpose of unemployment compensation insurance. Accordingly, no charges are paid to the Illinois Director of Labor during the year unless legitimate claims for unemployment compensation are filed by ex-employees. When such claims are filed, the Organization is liable for the unemployment compensation paid by the State of Illinois to the filing parties.

As a result, the Organization is contingently liable for all future potential unemployment compensation claims from current employees. Total unemployment claims in 2009 and 2008 for one employee was $8,326 and $7,250, respectively. Any future liability was deemed insignificant by management, therefore no accrual has been booked.

Note 8 – Related Party Transaction

The Organization received a loan from the President and Executive Editor, Joseph and Diane Bast, in September 2009 in the amount of $85,000. This amount was repaid from The Heartland Institute to the Basts in October 2009. There is no outstanding balance as of December 31, 2009.

Note 9 - Subsequent Events

Subsequent events have been evaluated through the date of this report.

Note 10 – Prior Period Adjustment

The amounts for the temporally restricted and unrestricted net assets at the beginning of the year ended December 31, 2008 have been reallocated.