The Heartland Institute

Audited Financial Statements

Year Ended December 31, 2010 and 2009

The Heartland Institute

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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, 2010 and 2009, and the related statements of activities and changes in net assets, statements 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, 2010 and 2009 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 6, 2011

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The Heartland Institute
Statements of Financial Position
December 31, 2010 and 2009

Assets	December 31, 2010	December 31, 2009
Current assets:		
Cash and cash equivalents (Note 1)	$ 536,560	$ 690,283
Prepaid expenses	15,271	49,735
Total current assets	551,831	740,018
Property and equipment, at cost (Note 2):		
Office equipment	160,380	155,482
Office furniture	18,502	16,764
Leasehold improvements	53,907	53,907
Artwork	12,250	12,250
Less accumulated depreciation	(194,580)	(173,970)
	50,459	64,433
Other assets:		
Security deposits	13,911	10,911
Deferred compensation	155,369	-
	169,280	10,911
Total assets	$ 771,570	$ 815,362
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 108,395	$ 108,990
Payroll liabilities	34,082	17,933
Deferred compensation liability	155,369	-
Total current liabilities	297,846	126,923
Net assets:		
Unrestricted	443,148	457,863
Temporarily restricted (Note 6)	30,576	230,576
Permanently restricted	-	-
Total net assets	473,724	688,439
Total liabilities and net assets	$ 771,570	$ 815,362

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

The Heartland Institute
Statements of Activities and Changes in Net Assets
Years ended December 31, 2010 and 2009

	December 31, 2010			December 31, 2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support and revenue received						
Contributions	$ 5,963,887	$ -	$ 5,963,887	$ 6,163,552	$ 200,000	$ 6,363,552
Publications/research	23,513	-	23,513	60,627	-	60,627
Advertising	17,879	-	17,879	14,101	-	14,101
Fundraising events	35,003	-	35,003	102,198	-	102,198
In-Kind contributions	9,512	-	9,512	136,135	-	136,135
Other events	99,472	-	99,472	134,759	-	134,759
Premiums	101	-	101	315	-	315
Interest income	8,537	-	8,537	58,710	-	58,710
Gain/loss market value	-	-	-	259	-	259
Total revenue	6,157,904	-	6,157,904	6,670,656	200,000	6,870,656
Net assets released from restrictions - satisfaction of program restrictions	200,000	(200,000)	-	-	-	-
Expenses						
Program services	5,209,691	-	5,209,691	5,276,043	-	5,276,043
Support services	536,192	-	536,192	540,033	-	540,033
Fundraising services	483,571	-	483,571	520,729	-	520,729
Total expenses	6,229,454	-	6,229,454	6,336,805	-	6,336,805
Change in net assets	128,450	(200,000)	(71,550)	333,851	200,000	533,851
Net assets, beginning of year	457,863	230,576	688,439	124,012	30,576	154,588
Prior period adjustment (Note 8)	(143,165)	-	(143,165)	-	-	-
Net assets, beginning restated	314,698	230,576	545,274	124,012	30,576	154,588
Net assets, end of year	$ 443,148	$ 30,576	$ 473,724	$ 457,863	$ 230,576	$ 688,439

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

The Heartland Institute
Statements of Functional Expenses
Years ended December 31, 2010 and 2009

	---------------- Programs	----------------		Total				
Expenses:	Publications/ Editorial	Government Relations	Public Relations	Total Program Services	Support Services	Fundraising Services	Total Expenses December 31, 2010	Total Expenses December 31, 2009
Salaries and wages	$ 274,436	$ 234,441	$ 342,650	$ 851,527	$ 335,639	$ 180,317	$ 1,367,483	$ 1,499,234
Benefits	23,460	22,829	34,644	80,933	43,888	13,476	138,297	123,050
Payroll taxes	20,276	17,823	25,608	63,707	24,203	12,816	100,726	110,506
Accounting/payroll fees	-	-	-	-	38,635	-	38,635	10,529
Supplies/furniture/equipment	5,763	8,408	6,335	20,506	8,174	3,312	31,992	54,979
Telephone	10,380	12,153	12,054	34,587	10,011	10,695	55,293	36,711
Postage and shipping	405,608	30,801	74,624	511,033	2,919	38,050	552,002	671,480
Occupancy	44,709	53,303	44,708	142,720	36,115	36,115	214,950	171,536
Equipment rental/maintenance	3,233	3,233	3,233	9,699	3,233	3,233	16,165	23,174
Printing and publications	639,471	15,802	50,980	706,253	940	10,076	717,269	540,844
Travel	24,649	78,793	211,310	314,752	449	21,169	336,370	151,100
Conferences/meetings	692	23,527	583,827	608,046	1,560	34,439	644,045	1,267,169
Interest	-	-	-	-	2,286	-	2,286	2,140
Depreciation	4,122	4,122	4,122	12,366	4,122	4,122	20,610	19,501
Other Expenses:								
Advertising	-	-	199,404	199,404	1,351	800	201,555	339,281
Special project management	-	-	-	-	-	29,212	29,212	165,000
Editors, writers and speakers	752,838	140,591	343,116	1,236,545	9,913	79,776	1,326,234	780,088
Newswire and clipping services	-	-	-	-	-	-	-	27,606
Web site and DVD duplication	157,450	-	54,112	211,562	-	-	211,562	139,919
Library/subscriptions	622	505	1,188	2,315	224	2,148	4,687	6,752
Memberships	-	29,300	-	29,300	1,059	-	30,359	31,735
Government and bank fees	4,915	3,815	3,815	12,544	3,917	3,815	20,276	29,168
Survey	-	21,800	-	21,800	-	-	21,800	16,000
Software	-	22,092	-	22,092	-	-	22,092	4,040
Moving expenses	-	-	-	-	7,554	-	7,554	263
Contributions/grants	-	-	118,000	118,000	-	-	118,000	115,000
Total Expenses:	$ 2,372,624	$ 723,338	$ 2,113,730	$ 5,209,691	$ 536,192	$ 483,571	$ 6,229,454	$ 6,336,805
Percentage of total	38%	12%	34%	84%	8%	8%	100%	

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

The Heartland Institute
Statements of Cash Flows
Years ended December 31, 2010 and 2009

	December 31, 2010	December 31, 2009
Cash flow from operating activities:		
Change in net assets	$ (71,550)	$ 533,851
Add items not requiring an outlay of cash:		
Depreciation	20,610	19,501
(Increase) decrease in current assets:		
Prepaid expenses	34,464	(15,602)
Deferred compensation	(155,369)	-
Increase (decrease) in current liabilities:		
Accounts payable	(595)	50,575
Payroll liabilities	16,149	(3,447)
Security deposit	(3,000)	(4,911)
Deferred revenue	-	(8,562)
Deferred compensation liability	155,369	-
Prior period adjustment	(143,165)	-
Net cash provided by (used in) operating activities	(147,087)	571,405
Cash flow from investing activities:		
Capital expenditures		
Equipment and furniture	(6,636)	(17,848)
Net cash provided by (used in) investing activities	(6,636)	(17,848)
Cash flow from financing activities:	-	-
Net cash provided by (used in) financing activities	-	-
Increase (decrease) in cash	(153,723)	553,557
Cash and cash equivalents balance, beginning of year	690,283	136,726
Cash and cash equivalents balance, end of year	$ 536,560	$ 690,283
Interest expense:	$ 2,286	$ 2,140

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

The Heartland Institute
Notes to Financial Statements
December 31, 2010

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 (FASB) in its Accounting Standards Codification (ASC) 958-210 (formerly SFAS No 117, *Financial Statements of Not-for-Profit Organizations*). Under FASB ASC 958-210, 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, 2010 and 2009, The Heartland Institute had temporarily restricted net assets of $30,576 and $230,576 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, 2010 and 2009.

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.

Note 1- Summary of Significant Account Policies (continued)

Contributions: The Heartland Institute accounts for contributions in accordance with the recommendations in FASB ASC 958-225 formerly (SFAS No. 116, *Accounting for Contributions Received and Contributions Made).* In accordance with FASB ASC 958-225, 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.

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. Interest-bearing accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Noninterest-bearing accounts have unlimited insurance by the FDIC at this time.

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.

The Heartland Institute
Notes to Financial Statements
December 31, 2010

Note 1- Summary of Significant Account Policies (continued)

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, 2010 and 2009.

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.

The institute adopted the implementation of FASB ASC 740 (formerly FIN 48, "*Accounting for Uncertainty in Income Taxes*"). Under FASB ASC 740, management must evaluate the positions it has taken on tax returns. Management has determined that there are no tax positions that would result in a more likely than not (50% chance) of being sustained under a potential audit or examination.

Note 2 – Fixed Assets

Property and equipment at December 31, 2010 consist of the following:

Non-depreciable:	
Artwork	$ 12,250
Depreciable:	
Office furniture	18,502
Office equipment	160,380
Leasehold improvements	53,907
Less accumulated depreciation	(194,580)
Net property and equipment	$ 50,459

Depreciation expense for the years ended December 31, 2010 and 2009 was $20,610 and $19,501 respectively.

The Heartland Institute
Notes to Financial Statements
December 31, 2010

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 $8,191 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 $5,527 per month. Rent expenses amounted to $161,633 in 2010.

The Heartland institute entered into a lease for an office in Washington, D.C. effective April 1, 2010 through March 31, 2012. Monthly base rent payments are currently $3,000 per month. Rent expense amounted to $27,000 in 2010.

The Organization also entered into two equipment – operating leases:

1. A photocopier lease was entered effective October 1, 2009 through September 30, 2014 for $987 per month.
2. A postage machine lease was entered effective May 2007 through May 2011 for $389 per quarter.

Following are the minimum future lease commitments:

Period Ended		
December 31, 2011	$	216,541
December 31, 2012		63,888
December 31, 2013		21,392
December 31, 2014		8,883
December 31, 2015		-
	$	310,704

Note 4 – Concentrations

Approximately 28% and 35% of The Heartland Institute's total support and revenues for the years ended December 31, 2010 and 2009 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.

The Heartland Institute
Notes to Financial Statements
December 31, 2010

Note 5 – 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 6 – 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 December 31, 2010 and 2009 for one employee was $83 and $8,325, respectively. Any future liability was deemed insignificant by management; therefore no accrual has been booked.

Note 7 – Subsequent Events

The Heartland Institute is participating in an ongoing litigation about pesticides. Heartland has been subpoenaed for documents and communications with Syngenta Corporation. Heartland has budgeted $21,000 for legal expenses in 2011 for this ongoing litigation.

After year end, Heartland Institute received a donation to support work with the Prometheus Institute for the development of an iPhone application. The contract price with the Prometheus Institute was $62,000.

Note 8 – Prior Period Adjustment

Adjustments were made to the prior period to correct deferred compensation and prepaid expenses and their accompanying expense accounts.

The Heartland Institute
Notes to Financial Statements
December 31, 2010

Note 9 – Deferred Compensation

In 2008, a deferred compensation plan was put together for the President of the company. The Heartland Institute will fully fund the account over ten years. After the President is employed for 10 years the account will be fully vested and promptly distributed.

Note 11 – Date of Management's Review

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