The Heartland Institute

Audited Financial Statements

For the Years Ended December 31, 2016 and 2015

The Heartland Institute

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Independent Auditor's Report

To the Board of Directors of
The Heartland Institute
Arlington Heights, Illinois 60004

We have audited the accompanying financial statements of The Heartland Institute (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

2001 LARKIN AVENUE • SUITE 202 • ELGIN, IL 60123 • P: 847.695.2700 • F: 847.695.2748 • WWW.TKOCPA.COM

CHICAGO — ELGIN — ST. CHARLES

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, 2016 and 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Tighe, Kress & Orr P.C.

Elgin, Illinois
August 14, 2017

The Heartland Institute
Statements of Financial Position
December 31, 2016 and 2015

Assets	December 31, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	$ 227,602	$ 284,638
Accounts receivable	15,000	60,000
Prepaid expenses	11,411	16,956
Total current assets	254,013	361,594
Property and equipment, at cost:		
Land	65,364	65,364
Building	927,143	927,143
Office equipment	229,816	222,545
Office furniture	46,005	29,003
Artwork	12,250	12,250
Less accumulated depreciation	(253,357)	(215,932)
Net property and equipment	1,027,221	1,040,373
Other assets:		
Deferred compensation	480,933	397,765
Total other assets	480,933	397,765
Total assets	$ 1,762,167	$ 1,799,732
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 157,430	$ 236,336
Payroll liabilities	56,446	54,515
Total current liabilities	213,876	290,851
Long-term liabilities:		
Deferred compensation liability	530,933	447,765
Total long-term liabilities	530,933	447,765
Net assets:		
Unrestricted	986,783	1,030,541
Temporarily restricted	30,575	30,575
Permanently restricted	-	-
Total net assets	1,017,358	1,061,116
Total liabilities and net assets	$ 1,762,167	$ 1,799,732

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

The Heartland Institute
Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2016 and 2015

	------------December 31, 2016------------			------------December 31, 2015------------		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support and revenue received						
Contributions	$ 5,322,688	$ -	$ 5,322,688	$ 4,533,307	$ -	$ 4,533,307
Publications/research	2,226	-	2,226	6,600	-	6,600
Advertising	6,439	-	6,439	9,138	-	9,138
Fundraising events	102,685	-	102,685	61,727	-	61,727
Other events	7,503	-	7,503	40,105	-	40,105
Premiums	38,249	-	38,249	7,856	-	7,856
Interest income	1,288	-	1,288	2,360	-	2,360
In-kind contributions	28,112	-	28,112	37,323	-	37,323
Gain(loss) on disposal	-	-	-	(14,340)	-	(14,340)
Total revenue	5,509,190	-	5,509,190	4,684,076	-	4,684,076
Net assets released from restrictions - satisfaction of program restrictions	-	-	-	100,000	(100,000)	-
Expenses						
Program services	4,437,148	-	4,437,148	4,815,796	-	4,815,796
Support services	395,496	-	395,496	506,481	-	506,481
Fundraising services	720,304	-	720,304	733,989	-	733,989
Total expenses	5,552,948	-	5,552,948	6,056,266	-	6,056,266
Change in net assets	(43,758)	-	(43,758)	(1,272,190)	(100,000)	(1,372,190)
Net assets, beginning of year	1,030,541	30,575	1,061,116	2,302,731	130,575	2,433,306
Net assets, end of year	$ 986,783	$ 30,575	$ 1,017,358	$ 1,030,541	$ 30,575	$ 1,061,116

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

The Heartland Institute
Statements of Functional Expenses
For the Years Ended December 31, 2016 and 2015
Part 1

	---------------- Programs ----------------							
	Publications/ Editorial	Government Relations	Public Relations	Total Program Services	Support Services	Fundraising Services	Total Expenses December 31, 2016	Total Expenses December 31, 2015
Expenses:								
Salaries and wages	$ 395,686	$ 372,878	$ 606,910	$ 1,375,474	$ 266,643	$ 374,922	$ 2,017,039	$ 1,923,812
Benefits	16,619	41,927	89,951	148,497	28,025	30,027	206,549	181,385
Payroll taxes	28,872	28,823	47,234	104,929	18,591	23,964	147,484	119,965
Accounting/payroll fees/legal fee:	18,556	20,853	27,878	67,287	9,027	11,876	88,190	85,406
Supplies/furniture/equipment	3,687	2,693	12,978	19,358	2,805	10,526	32,689	29,047
Telephone/data	10,834	12,884	14,840	38,558	11,384	11,384	61,326	50,364
Postage and shipping	231,545	10,989	102,001	344,535	2,320	52,216	399,071	445,376
Occupancy	30,048	30,048	30,048	90,144	30,048	30,048	150,240	413,472
Equipment rental/maintenance	4,601	4,601	4,601	13,803	4,601	4,601	23,005	20,595
Printing and publications	534,863	9,774	32,739	577,376	1,041	26,345	604,762	452,670
Travel	36,185	97,024	103,002	236,211	5,078	35,842	277,131	372,080
Conferences/meetings	925	142,727	46,684	190,336	538	47,023	237,897	437,102
Interest	640	640	640	1,920	640	640	3,200	-
Depreciation	7,485	7,485	7,485	22,455	7,485	7,485	37,425	28,195
Other Expenses:								
Advertising and public relations	-	-	59,386	59,386	1,126	4,240	64,752	167,989
Special project management	-	-	-	-	-	35,001	35,001	39,262
Editors, writers, and speakers	395,726	34,500	219,662	649,888	-	2,985	652,873	897,708
Newswire and clipping services	-	5,800	46,479	52,279	-	-	52,279	36,620
Web site and DVD duplication	363,729	-	-	363,729	-	-	363,729	254,605
Library and subscriptions	7,793	-	4,501	12,294	12	546	12,852	18,315
Memberships	225	12,725	1,725	14,675	415	791	15,881	15,660
Government and bank fees	5,717	5,717	5,717	17,151	5,717	5,717	28,585	38,665
Survey and telemarketing	-	4,125	4,125	8,250	-	4,125	12,375	-
Moving/staff relocation	-	500	-	500	-	-	500	-
Contributions/grants	-	-	-	-	-	-	-	1,150
In-kind expense	9,371	9,371	9,371	28,113	-	-	28,113	26,823
Total Expenses:	$ 2,103,107	$ 856,084	$ 1,477,957	$ 4,437,148	$ 395,496	$ 720,304	$ 5,552,948	$ 6,056,266
Percentage of total	38%	15%	27%	80%	7%	13%	100%	

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

The Heartland Institute
Statements of Functional Expenses
For the Years Ended December 31, 2016 and 2015
Part 2

	---------------- Programs ----------------			Total			
Expenses:	Publications/ Editorial	Government Relations	Public Relations	Program Services	Support Services	Fundraising Services	Total Expenses December 31, 2015
Salaries and wages	$ 375,351	$ 318,353	$ 617,983	$ 1,311,687	$ 291,319	$ 320,806	$ 1,923,812
Benefits	16,663	29,005	75,928	121,596	29,915	29,874	181,385
Payroll taxes	25,339	22,716	45,160	93,215	16,866	9,884	119,965
Accounting/payroll fees/legal fee	15,717	15,132	22,965	53,814	18,401	13,191	85,406
Supplies/furniture/equipment	4,900	3,404	11,148	19,452	3,697	5,898	29,047
Telephone/data	8,883	10,905	10,317	30,105	9,455	10,804	50,364
Postage and shipping	267,553	7,686	63,109	338,348	2,634	104,394	445,376
Occupancy	82,694	82,694	82,694	248,082	82,695	82,695	413,472
Equipment rental/maintenance	4,119	4,119	4,119	12,357	4,119	4,119	20,595
Printing and publications	392,258	3,637	43,282	439,177	1,170	12,323	452,670
Travel	21,033	120,127	148,920	290,080	5,921	76,079	372,080
Conferences/meetings	2,175	130,601	299,203	431,979	1,412	3,711	437,102
Depreciation	5,639	5,639	5,639	16,917	5,639	5,639	28,195
Other Expenses:							
Advertising and public relations	-	-	166,268	166,268	539	1,182	167,989
Special project management	2,017	2,017	2,017	6,051	6,051	27,160	39,262
Editors, writers, and speakers	619,545	47,500	210,638	877,683	18,375	1,650	897,708
Newswire and clipping services	-	3,137	33,483	36,620	-	-	36,620
Web site and DVD duplication	104,745	-	149,860	254,605	-	-	254,605
Library and subscriptions	470	-	2,943	3,413	-	14,902	18,315
Memberships	-	12,000	1,525	13,525	190	1,945	15,660
Government and bank fees	7,733	7,733	7,733	23,199	7,733	7,733	38,665
Survey and telemarketing	-	-	-	-	-	-	-
Contributions/grants	-	800	-	800	350	-	1,150
In-kind expense	8,941	8,941	8,941	26,823	-	-	26,823
Total Expenses:	$ 1,965,775	$ 836,146	$ 2,013,875	$ 4,815,796	$ 506,481	$ 733,989	$ 6,056,266
Percentage of total	32%	14%	34%	80%	8%	12%	100%

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

The Heartland Institute
Statements of Cash Flows
For the Years Ending December 31, 2016 and 2015

	December 31, 2016	December 31, 2015
Cash flow from operating activities:		
Change in net assets	$ (43,758)	$ (1,372,190)
Add items not requiring an outlay of cash:		
Depreciation	37,425	28,195
Loss on disposal of fixed assets	-	14,340
(Increase) decrease in current assets:		
Prepaid expenses	5,545	1,763
Accounts receivable	45,000	115,000
Security deposits	-	13,831
Deferred compensation	(83,168)	(34,044)
Increase (decrease) in current liabilities:		
Accounts payable	(78,905)	224,789
Payroll liabilities	1,931	1,722
Deferred compensation liability	83,168	34,044
Deferred rent	-	(23,757)
Deferred revenue	-	(50,000)
Net cash provided by (used in) operating activities	(32,762)	(1,046,307)
Cash flow from investing activities:		
Capital expenditures		
Equipment and furniture	(7,271)	(34,116)
Building and land	-	(338,871)
Donated capital assets	(17,003)	(10,500)
Net cash provided by (used in) investing activities	(24,274)	(383,487)
Cash flow from financing activities:		
Payments of short term loans	-	-
Net cash provided by (used in) financing activities	-	-
Increase (decrease) in cash	(57,036)	(1,429,794)
Cash and cash equivalents balance, beginning of year	284,638	1,714,432
Cash and cash equivalents balance, end of year	$ 227,602	$ 284,638
Interest expense:	$ 3,202	$ 1,773

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

Note 1- Summary of Significant Account Policies

Nature of Activities: The Heartland Institute ("the Organization") 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. 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.

Unrestricted net assets include undesignated and board-designated sources with no legal or donor imposed restriction. At December 31, 2016 and 2015, The Heartland Institute had unrestricted net assets of $986,783 and $1,030,541, respectively.

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 statements of activities as net assets released from restrictions. At December 31, 2016 and 2015, The Heartland Institute had temporarily restricted net assets of $30,575 and $30,575, 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, 2016 and 2015.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reports amounts of revenues, gains and expenses during the reporting period. 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.

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. 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.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other 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.

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.

Buildings	39 Years
Land improvements	20 Years
Furniture and equipment	7 Years
Software	3 Years
Automobiles	5 Years
Building improvements	15 Years

Concentrations of Credit Risk: 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. Amounts in excess are at risk for financial loss. From time to time, The Heartland Institute has funds in excess of FDIC insurance. Management has evaluated the risk and does not find it to be significant.

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

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 principles.

Note 1- Summary of Significant Account Policies (continued)

Accounts 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, 2016 and 2015.

Income Tax Status: The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities, and is classified by the Internal Revenue Service as other than a private foundation. The Organization has advertising income that is subject to tax on unrelated business income. At December 31, 2016 and 2015, there is no tax liability. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Institute adopted the implementation of FASB ASC 740. 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.

Currently, the 2013, 2014, and 2015 tax years are open and subject to examination by the Internal Revenue Service and the Illinois Department of Revenue; however the Organization is not currently under audit nor has the Organization been contacted by any of these jurisdictions.

Note 2 – Fixed Assets

Property and equipment at December 31, 2016 consists of the following:

	Cost 12/31/2015	Acquisitions/ (Deletions)	Cost 12/31/2016	Accumulated Depreciation 12/31/2016
Depreciable assets:				
Building	$ 927,143	$ -	$ 927,143	$ (43,010)
Leasehold improvements	-	-	-	-
Office furniture	29,003	17,002	46,005	(19,291)
Office equipment	222,545	7,271	229,816	(191,056)
Non-depreciable assets:				
Land	65,364	-	65,364	-
Artwork	12,250	-	12,250	-
Total fixed assets	$ 1,256,305	$ 24,273	$ 1,280,578	$ (253,357)

Depreciation expense for the years ended December 31, 2016 and 2015 was $37,425 and $28,195 respectively.

Note 3 – Lease Commitments

The Heartland Institute entered into a lease for its headquarters effective December 15, 2011 and expired June 30, 2015. The lease included scheduled rent increases. Generally accepted accounting principles require that rent expense be recognized on a straight line basis over the term of the lease. Deferred rent represents the excess of rent expense recognized over payments made under the lease. The expense for 2016 and 2015 was $0 and $66,815.

The Organization also entered into three equipment – operating leases:

1. A postage machine lease was entered effective October 2016 through September 2021 for $385 per month. The amounts will be billed quarterly.
2. A photocopier lease was entered effective August 2014 through July 2019 for $537 per month.
3. A photocopier lease was entered effective May 2016 through June 2021 for $247 per month.

Following are the minimum future lease commitments:

Period ending		
December 31, 2017	$	14,427
December 31, 2018		14,427
December 31, 2019		11,743
December 31, 2020		7,985
December 31, 2021		5,148
Total	$	53,730

Note 4 – Concentrations

Approximately 33% and 19% of The Heartland Institute's total support and revenues for the years ended December 31, 2016 and 2015 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 – 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 – Fair Value Measurements

The Financial Accounting Standards Board has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under generally accepted accounting principles are described below:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access

Level 2 — Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Cash accounts: Based on the value of cash held at year end.

Certificate of deposit: Based upon face value of certificate.

Mutual funds: Based on the net asset value (NAV) of shares held year end.

Note 6 – Fair Value Measurements (continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while The Heartland Institute believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair market value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, The Heartland Institute's assets at fair value as of December 31, 2016 and 2015:

	Assets at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash	$ 227,602	$ -	$ -	$ 227,602
Mutual Funds				
Money Markets	4,250	-	-	4,250
High Yield Bonds	118,599	-	-	118,599
Equity Funds	358,084	-	-	358,084
Total assets at fair value	$ 708,535	$ -	$ -	$ 708,535

	Assets at Fair Value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash	$ 284,638	$ -	$ -	$ 284,638
Mutual Funds				
Money Markets	1,409	-	-	1,409
High Yield Bonds	123,780	-	-	123,780
Equity Funds	272,576	-	-	272,576
Total assets at fair value	$ 682,403	$ -	$ -	$ 682,403

Note 7 – Deferred Compensation

In 2008, a deferred compensation plan was put together for the President of the organization. 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. For each of the years ending December 31, 2016 and 2015, $50,000 has been expensed for this plan.

Note 8 – Date of Management's Review

Subsequent events have been evaluated through the date of this report. It was concluded that there are no events required to be disclosed.