The Heartland Institute

Audited Financial Statements

For the Years Ended December 31, 2018 and 2017

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 (the "Organization") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, 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 from 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 Organization as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Tighe Kress & Orr, PC

Elgin, Illinois
August 9, 2019

The Heartland Institute
Statements of Financial Position
December 31, 2018 and 2017

		2018		2017
Assets				
Current assets:				
Cash and cash equivalents	$	1,530,628	$	686,274
Accounts receivable		-		2,500
Prepaid expenses		15,641		25,320
Total current assets		1,546,269		714,094
Property and equipment, net		953,072		989,649
Deferred compensation		-		591,691
Total Assets	$	2,499,341	$	2,295,434
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	$	61,771	$	42,652
Payroll liabilities		46,179		69,812
Total current liabilities		107,950		112,464
Long-term liabilities:				
Deferred compensation liability		-		641,691
Total long-term liabilities		-		641,691
Net assets:				
Without donor restrictions		2,360,816		1,510,704
With donor restrictions		30,575		30,575
Total net assets		2,391,391		1,541,279
Total Liabilities and Net Assets	$	2,499,341	$	2,295,434

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, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue received:						
Contributions	$ 5,732,718	$ -	$ 5,732,718	$ 5,730,718	$ -	$ 5,730,718
Publications/research	26,551	-	26,551	27,694	-	27,694
Fundraising events	100,257	-	100,257	1,070	-	1,070
Other events	13,040	-	13,040	63,231	-	63,231
Premiums	-	-	-	2,238	-	2,238
Interest income	5,772	-	5,772	461	-	461
In-kind contributions	-	-	-	170,303	-	170,303
Total Revenue	5,878,338	-	5,878,338	5,995,715	-	5,995,715
Net assets released from restrictions - satisfaction of program restrictions	-	-	-	-	-	-
Expenses:						
Program services	3,644,634	-	3,644,634	4,272,214	-	4,272,214
Support services	631,050	-	631,050	565,547	-	565,547
Fundraising services	752,542	-	752,542	634,033	-	634,033
Total Expenses	5,028,226	-	5,028,226	5,471,794	-	5,471,794
Change in net assets	850,112	-	850,112	523,921	-	523,921
Net assets, beginning of year	1,510,704	30,575	1,541,279	986,783	30,575	1,017,358
Net assets, end of year	$ 2,360,816	$ 30,575	$ 2,391,391	$ 1,510,704	$ 30,575	$ 1,541,279

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

The Heartland Institute
Statements of Functional Expenses
For the Years Ended December 31, 2018 and 2017
Part 1

	---------- Programs ----------			Total				
Expenses:	Publications/ Editorial	Government Relations	Public Relations	Program Services	Support Services	Fundraising Services	Total Expenses December 31, 2018	Total Expenses December 31, 2017
Salaries and wages	$ 417,635	$ 394,614	$ 644,425	$ 1,456,674	$ 344,215	$ 391,575	$ 2,192,464	$ 2,080,144
Benefits	32,893	31,001	94,762	158,656	52,680	40,969	252,305	213,896
Payroll taxes	32,516	31,012	50,173	113,701	22,218	26,261	162,180	153,035
Contractors	322,256	84,745	386,575	793,576	32,715	72,525	898,816	764,323
Accounting/payroll fees/legal fees	14,979	12,944	22,405	50,328	14,860	19,842	85,030	93,168
Supplies/furniture/equipment	739	19,002	25,969	45,710	11,370	28,443	85,523	22,332
Telephone/data	-	1,350	2,865	4,215	54,331	830	59,376	57,065
Postage and shipping	97,451	16,700	19,511	133,662	5,876	36,997	176,535	547,485
Occupancy	28,361	28,360	28,360	85,081	28,361	28,361	141,803	137,235
Equipment rental/maintenance	-	-	-	-	-	-	-	21,530
Printing and publications	195,723	27,337	25,325	248,385	12,500	20,230	281,115	380,602
Travel	18,218	65,962	169,522	253,702	2,403	41,424	297,529	247,809
Conferences/meetings	1,062	42,175	173,969	217,206	100	29,664	246,970	432,595
Interest	-	-	-	-	3,202	-	3,202	1,065
Depreciation	7,315	7,315	7,315	21,945	7,315	7,316	36,576	37,570
Other Expenses:								
Advertising and public relations	-	-	14,859	14,859	158	5,000	20,017	24,020
Education and other expenses	-	-	36,520	36,520	7,200	-	43,720	-
Library and subscriptions	508	-	3,054	3,562	294	752	4,608	16,825
Memberships	-	-	-	-	1,294	842	2,136	16,453
Government and bank fees	-	-	-	-	29,958	-	29,958	23,335
Moving/staff relocation	-	6,852	-	6,852	-	1,511	8,363	12,504
Special project management	-	-	-	-	-	-	-	18,500
In-kind expense	-	-	-	-	-	-	-	170,303
Total Expenses:	$ 1,169,656	$ 769,369	$ 1,705,609	$ 3,644,634	$ 631,050	$ 752,542	$ 5,028,226	$ 5,471,794
Percentage of total	23%	15%	34%	72%	13%	15%	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, 2018 and 2017
Part 2

	---------- Programs ----------			Total			
Expenses:	Publications/ Editorial	Government Relations	Public Relations	Program Services	Support Services	Fundraising Services	Total Expenses December 31, 2017
Salaries and wages	$ 454,879	$ 296,747	$ 584,204	$ 1,335,830	$ 374,429	$ 369,885	$ 2,080,144
Benefits	24,822	29,995	83,757	138,574	40,664	34,658	213,896
Payroll taxes	33,895	22,950	44,337	101,182	26,524	25,329	153,035
Contractors	396,511	38,390	307,910	742,811	53	21,459	764,323
Accounting/payroll fees/legal fees	15,624	13,401	22,185	51,210	27,982	13,976	93,168
Supplies/furniture/equipment	1,968	1,229	14,010	17,207	2,450	2,675	22,332
Telephone/data	10,246	11,096	13,619	34,961	11,196	10,908	57,065
Postage and shipping	466,105	3,025	35,758	504,888	553	42,044	547,485
Occupancy	27,447	27,447	27,447	82,341	27,447	27,447	137,235
Equipment rental/maintenance	4,306	4,306	4,306	12,918	4,306	4,306	21,530
Printing and publications	328,725	1,919	32,031	362,675	1,728	16,199	380,602
Travel	21,237	55,609	117,657	194,503	22,516	30,790	247,809
Conferences/meetings	1,395	35,806	394,048	431,249	-	1,346	432,595
Interest	213	213	213	639	213	213	1,065
Depreciation	7,514	7,514	7,514	22,542	7,514	7,514	37,570
Other Expenses:							
Advertising and public relations	-	-	23,416	23,416	-	604	24,020
Special project management	-	-	-	-	-	18,500	18,500
Library and subscriptions	4,401	-	10,679	15,080	602	1,143	16,825
Memberships	-	13,500	2,384	15,884	199	370	16,453
Government and bank fees	4,667	4,667	4,667	14,001	4,667	4,667	23,335
Moving/staff relocation	-	-	-	-	12,504	-	12,504
In-kind expense	56,768	56,768	56,767	170,303	-	-	170,303
Total Expenses:	$ 1,860,723	$ 624,582	$ 1,786,909	$ 4,272,214	$ 565,547	$ 634,033	$ 5,471,794
Percentage of total	34%	11%	33%	78%	10%	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, 2018 and 2017

	2018	2017
Cash flow from operating activities:		
Change in net assets	$ 850,112	$ 523,921
Add items not requiring an outlay of cash:		
Depreciation	36,576	37,570
(Increase) decrease in current assets:		
Prepaid expenses	9,678	(13,909)
Accounts receivable	2,500	12,500
Deferred compensation	591,691	(110,759)
Increase (decrease) in current liabilities:		
Accounts payable	19,121	(114,776)
Payroll liabilities	(23,633)	13,366
Deferred compensation liability	(641,691)	110,759
Net cash provided by operating activities	844,354	458,672
Cash flow from investing activities:		
Net cash provided by (used in) investing activities	-	-
Cash flow from financing activities:		
Net cash provided by (used in) financing activities	-	-
Increase in cash	844,354	458,672
Cash and cash equivalents balance, beginning of year	686,274	227,602
Cash and cash equivalents balance, end of year	$ 1,530,628	$ 686,274
Supplemental Disclosure		
Cash Paid for Interest	$ 3,202	$ 1,065

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 Organization 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 Update ("ASU") 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities.* Under FASB ASU 2016-14, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Net assets without donor restrictions include undesignated and board-designated sources with no legal donor-imposed restrictions.

Net assets with donor restrictions represent net assets subject to donor-imposed or legal restrictions; which will either be met by the Organization's actions, the passage of time or are perpetual in nature. Net assets with donor restrictions are reclassified to net assets without donor restrictions when the restrictions are met or have expired. These reclassifications are reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions.

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 Organization 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 Organization 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 support and revenue with or without donor restrictions, 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 net assets without donor restriction 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 net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, such as when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets released from restrictions.

Property and Equipment: Property and equipment are stated at cost, less accumulated depreciation. The Organization follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of $2,500. 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 Organization 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 Organization 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, 2018 and 2017.

Income Tax Status: The Organization is a tax-exempt organization as defined in Section 501(c)(3) of the Internal Revenue Code. Accounting principles generally accepted in the United States of America requires management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service or other applicable taxing authorities.

Management has analyzed the tax positions taken by the Organization, and has concluded that as of December 31, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Organization is subject to routine audits by taxing authorities; however, there are currently no audits for any tax periods in progress.

Liquidity: The Organization has $1,546,269 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of $1,530,628 and postage balances of $15,641. None of the financial assets are subjected to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 120 days of normal operating expenses, which are, on average, approximately $840,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

In addition, as part of its liquidity management, the Organization plans to invest cash in excess of 6-month operating requirements in short-term investments, including certificate deposits and short-term treasury instruments. In March 2019, management decided to invest $1,300,000 in a Certificate of Deposit with a 3-month term. Management will continue to make such investments as long as the cash reserves exceed the 6-month operating expense requirements.

New Accounting Pronouncement: During the year, the Organization adopted FASB ASU 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*. This pronouncement improves not-for-profit financial statements to provide more useful information to donors, grantors, creditors, and other financial statement users.

Note 2 – Fixed Assets

Property and equipment at December 31, 2018 consists of the following:

	Cost 12/31/2017	Acquisitions/ (Deletions)	Cost 12/31/2018	Accumulated Depreciation 12/31/2018
Depreciable assets:				
Building	$ 927,143	$ -	$ 927,143	$ (90,556)
Office furniture	46,005	-	46,005	(24,792)
Office equipment	229,816	-	229,816	(212,158)
Non-depreciable assets:				
Land	65,364	-	65,364	-
Artwork	12,250	-	12,250	-
Total fixed assets	$ 1,280,578	$ -	$ 1,280,578	$ (327,506)

Depreciation expense for the years ended December 31, 2018 and 2017 was $36,576 and 37,570, respectively.

Note 3 – Lease Commitments

The Organization entered into three equipment – operating leases:

1. A postage machine lease was entered effective October 2016 through September 2021 for $1,155 per quarter.
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 $272 per month.

Following are the minimum future lease commitments:

Period ending December 31,	
2019	$ 11,640
2020	7,882
2021	5,096
Total	$ 24,618

Note 4 – Concentrations

Approximately 34% and 33% of the Organization's total support and revenues for the years ended December 31, 2018 and 2017 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 – Net Assets with Donor Restrictions

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 have 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.

Note 6 – Fair Value Measurements (continued)

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.

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 Organization 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 mutual funds account was closed during 2018 when the deferred compensation liability was paid out. The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2017:

	Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Mutual Funds				
Money Markets	$ 6,307	$ -	$ -	$ 6,307
High Yield Bonds	163,531	-	-	163,531
Equity Funds	421,853	-	-	421,853
Total assets at fair value	$ 591,691	$ -	$ -	$ 591,691

Note 7 – Deferred Compensation

In 2008, a deferred compensation plan was put together for the President of the organization. The Organization 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, 2018 and 2017, $50,000 has been expensed for this plan. The President retired in 2018, and the balance of the deferred compensation account was paid out.

Note 8 – Reclassification

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Note 9 – Date of Management's Review

Subsequent events have been evaluated through the date of this report, which is the date the financial statements were available to be issued. It was concluded that there are no events required to be disclosed.