The Heartland Institute

Audited Financial Statements

For the Years Ended December 31, 2015 and 2014

The Heartland Institute

<u>Table of Contents</u>

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, 2015 and 2014, 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 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 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

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, 2015 and 2014, 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
April 25, 2016

The Heartland Institute
Statements of Financial Position
December 31, 2015 and 2014

Assets	December 31, 2015	December 31, 2014
Current assets:		
Cash and cash equivalents	$ 284,638	$ 1,714,432
Accounts receivable	60,000	175,000
Prepaid expenses	16,956	18,719
Total current assets	361,594	1,908,151
Property and equipment, at cost:		
Land	65,364	65,364
Building	927,143	588,272
Office equipment	222,545	188,429
Office furniture	29,003	18,503
Leasehold improvements	-	18,570
Artwork	12,250	12,250
Less accumulated depreciation	(215,932)	(191,967)
Net property and equipment	1,040,373	699,421
Other assets:		
Security deposits	-	13,831
Deferred compensation	397,765	363,721
Total other assets	397,765	377,552
Total assets	$ 1,799,732	$ 2,985,124
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 236,337	$ 11,547
Payroll liabilities	54,515	52,793
Deferred rent	-	23,757
Deferred revenue	-	50,000
Total current liabilities	290,852	138,097
Long-term liabilities:		
Deferred compensation liability	447,765	413,721
Total long-term liabilities	447,765	413,721
Net assets:		
Unrestricted	1,030,540	2,302,731
Temporarily restricted	30,575	130,575
Permanently restricted	-	-
Total net assets	1,061,115	2,433,306
Total liabilities and net assets	$ 1,799,732	$ 2,985,124

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, 2015 and 2014

	------------December 31, 2015------------			------------December 31, 2014------------		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support and revenue received						
Contributions	$ 4,533,307	$ -	$ 4,533,307	$ 6,790,995	$ 100,000	$ 6,890,995
Publications/research	6,600	-	6,600	3,090	-	3,090
Advertising	9,137	-	9,137	-	-	-
Fundraising events	61,727	-	61,727	94,755	-	94,755
Other events	40,105	-	40,105	54,590	-	54,590
Premiums	7,856	-	7,856	10,787	-	10,787
Interest income	2,360	-	2,360	947	-	947
In-kind contributions	37,323	-	37,323	-	-	-
Gain(loss) on disposal	(14,340)	-	(14,340)	-	-	-
Total revenue	4,684,075	-	4,684,075	6,955,164	100,000	7,055,164
Net assets released from restrictions - satisfaction of program restrictions	100,000	(100,000)	-	-	-	-
Expenses						
Program services	4,815,796	-	4,815,796	3,545,351	-	3,545,351
Support services	506,481	-	506,481	490,431	-	490,431
Fundraising services	733,989	-	733,989	674,311	-	674,311
Total expenses	6,056,266	-	6,056,266	4,710,093	-	4,710,093
Change in net assets	(1,272,191)	(100,000)	(1,372,191)	2,245,071	100,000	2,345,071
Net assets, beginning of year	2,302,731	130,575	2,433,306	57,660	30,575	88,235
Net assets, end of year	$ 1,030,540	$ 30,575	$ 1,061,115	$ 2,302,731	$ 130,575	$ 2,433,306

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

The Heartland Institute
Statements of Functional Expenses
For the Years Ended December 31, 2015 and 2014
Part 1

	---- Programs ----			Total				
Expenses:	Publications/ Editorial	Government Relations	Public Relations	Program Services	Support Services	Fundraising Services	Total Expenses December 31, 2015	Total Expenses December 31, 2014
Salaries and wages	$ 375,351	$ 318,353	$ 617,983	$ 1,311,687	$ 291,319	$ 320,806	$ 1,923,812	$ 1,613,806
Benefits	16,663	29,005	75,928	121,596	29,915	29,874	181,385	149,644
Payroll taxes	25,339	22,716	45,160	93,215	16,866	9,884	119,965	122,234
Accounting/payroll fees/legal fee:	15,717	15,132	22,965	53,814	18,401	13,191	85,406	85,919
Supplies/furniture/equipment	4,900	3,404	11,148	19,452	3,697	5,898	29,047	18,324
Telephone/data	8,883	10,905	10,317	30,105	9,455	10,804	50,364	41,303
Postage and shipping	267,553	7,686	63,109	338,348	2,634	104,394	445,376	352,605
Occupancy	82,694	82,694	82,694	248,082	82,695	82,695	413,472	169,145
Equipment rental/maintenance	4,119	4,119	4,119	12,357	4,119	4,119	20,595	19,045
Printing and publications	392,258	3,637	43,282	439,177	1,170	12,323	452,670	381,624
Travel	21,033	120,127	148,920	290,080	5,921	76,079	372,080	220,230
Conferences/meetings	2,175	130,601	299,203	431,979	1,412	3,711	437,102	361,300
Depreciation	5,639	5,639	5,639	16,917	5,639	5,639	28,195	8,907
Other Expenses:								
Advertising and public relations	-	-	166,268	166,268	539	1,182	167,989	65,182
Special project management	2,017	2,017	2,017	6,051	6,051	27,160	39,262	4,750
Editors, writers, and speakers	619,545	47,500	210,638	877,683	18,375	1,650	897,708	865,248
Newswire and clipping services	-	3,137	33,483	36,620	-	-	36,620	43,747
Web site and DVD duplication	104,745	-	149,860	254,605	-	-	254,605	122,445
Library and subscriptions	470	-	2,943	3,413	-	14,902	18,315	4,964
Memberships	-	12,000	1,525	13,525	190	1,945	15,660	14,290
Government and bank fees	7,733	7,733	7,733	23,199	7,733	7,733	38,665	35,609
Survey and telemarketing	-	-	-	-	-	-	-	9,772
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	$ 4,710,093
Percentage of total	32%	14%	33%	80%	8%	12%	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, 2015 and 2014
Part 2

	---------- Programs ----------			Total			
Expenses:	Publications/ Editorial	Government Relations	Public Relations	Program Services	Support Services	Fundraising Services	Total Expenses December 31, 2014
Salaries and wages	$ 377,678	$ 247,986	$ 258,504	$ 884,168	$ 307,908	$ 421,730	$ 1,613,806
Benefits	32,459	19,936	28,541	80,936	41,060	27,648	149,644
Payroll taxes	29,561	19,280	20,127	68,968	22,103	31,163	122,234
Accounting/payroll fees/legal fee	17,255	15,253	14,849	47,357	20,457	18,105	85,919
Supplies/furniture/equipment	5,203	1,717	5,242	12,162	1,835	4,327	18,324
Telephone/data	7,561	8,061	8,318	23,940	8,281	9,082	41,303
Postage and shipping	210,138	14,673	82,529	307,340	432	44,833	352,605
Occupancy	33,829	33,829	33,829	101,487	33,829	33,829	169,145
Equipment rental/maintenance	3,809	3,809	3,809	11,427	3,809	3,809	19,045
Printing and publications	276,107	4,546	88,282	368,935	876	11,813	381,624
Travel	18,731	69,770	100,057	188,558	555	31,117	220,230
Conferences/meetings	1,741	34,033	319,744	355,518	746	5,036	361,300
Depreciation	1,782	1,782	1,781	5,345	1,781	1,781	8,907
Other Expenses:							
Advertising and public relations	1,200	1,920	62,062	65,182	-	-	65,182
Special project management	-	-	-	-	-	4,750	4,750
Editors, writers, and speakers	615,144	32,478	169,156	816,778	38,900	9,570	865,248
Newswire and clipping services	600	2,747	39,200	42,547	-	1,200	43,747
Web site and DVD duplication	7,445	-	115,000	122,445	-	-	122,445
Library and subscriptions	1,705	-	2,286	3,991	52	921	4,964
Memberships	-	12,000	-	12,000	685	1,605	14,290
Government and bank fees	7,122	7,121	7,122	21,365	7,122	7,122	35,609
Survey and telemarketing	-	4,902	-	4,902	-	4,870	9,772
Total Expenses:	$ 1,649,070	$ 535,843	$ 1,360,438	$ 3,545,351	$ 490,431	$ 674,311	$ 4,710,093
Percentage of total	35%	11%	29%	75%	10%	14%	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, 2015 and 2014

	December 31, 2015	December 31, 2014
Cash flow from operating activities:		
Change in net assets	$ (1,372,191)	$ 2,345,071
Add items not requiring an outlay of cash:		
Depreciation	28,195	8,907
Loss on disposal of fixed assets	14,340	
(Increase) decrease in current assets:		
Prepaid expenses	1,763	(12,617)
Accounts receivable	115,000	(22,330)
Security deposits	13,831	-
Deferred compensation	(34,044)	(59,059)
Increase (decrease) in current liabilities:		
Accounts payable	224,790	(102,932)
Payroll liabilities	1,722	(47,869)
Deferred compensation liability	34,044	59,059
Deferred rent	(23,757)	(15,877)
Deferred revenue	(50,000)	50,000
Net cash provided by (used in) operating activities	(1,046,307)	2,202,353
Cash flow from investing activities:		
Capital expenditures		
Equipment and furniture	(34,116)	(11,139)
Building and land	(338,871)	(653,635)
Donated capital assets	(10,500)	-
Net cash provided by (used in) investing activities	(383,487)	(664,774)
Cash flow from financing activities:		
Payments of short term loans	-	-
Net cash provided by (used in) financing activities	-	-
Increase (decrease) in cash	(1,429,794)	1,537,579
Cash and cash equivalents balance, beginning of year	1,714,432	176,853
Cash and cash equivalents balance, end of year	$ 284,638	$ 1,714,432
Interest expense:	$ 1,773	$ 2,519

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

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1- Summary of Significant Account Policies

Nature of Activities: The Heartland Institute (hereafter referred to as "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, 2015 and 2014, The Heartland Institute had unrestricted net assets of $1,030,540 and $2,302,731, 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, 2015 and 2014, The Heartland Institute had temporarily restricted net assets of $30,575 and $130,575, 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, 2015 and 2014.

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.

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

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, 2015 and 2014.

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, 2015 and 2014, 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 2012, 2013, and 2014 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, 2015 consists of the following:

	Cost 12/31/2014	Acquisitions/ (Deletions)	Cost 12/31/2015	Accumulated Depreciation 12/31/2015
Depreciable assets:				
Building	$ 588,272	$ 338,871	$ 927,143	$ (19,237)
Leasehold improvements	18,570	(18,570)	-	-
Office furniture	18,503	10,500	29,003	(18,629)
Office equipment	188,429	34,116	222,545	(178,066)
Non-depreciable assets:				
Land	65,364	-	65,364	-
Artwork	12,250	-	12,250	-
Total	$ 891,388	$ 364,917	$ 1,256,305	$ (215,932)

Depreciation expense for the years ended December 31, 2015 and 2014 was $28,195 and $8,907 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 2015 and 2014 was $66,815 and $160,359.

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 month. The postage machine lease was renewed through September 2016 for $380 per month.

Following are the minimum future lease commitments:

Period Ending		
December 31, 2016	$	3,421
Total future lease commitments	$	3,421

Note 4 – Concentrations

Approximately 19% and 27% of The Heartland Institute's total support and revenues for the years ended December 31, 2015 and 2014 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.

During 2014 a contribution was made to the Organization from The David Herro Charitable Foundation in the amount of $100,000 for expenses related to the new building. This money was used during the year ended December 31, 2015.

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, 2015 and 2014:

	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 Bond	123,780	-	-	123,780
Equity Funds	272,576	-	-	272,576
Total assets at fair value	$ 682,403	$ -	$ -	$ 682,403

	Assets at Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash	$ 1,714,432	$ -	$ -	$ 1,714,432
Mutual funds				
Money Markets	3,011	-	-	3,011
High Yield Bond	95,354	-	-	95,354
Equity Funds	265,356	-	-	265,356
Total assets at fair value	$ 2,078,153	$ -	$ -	$ 2,078,153

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 the years ending December 31, 2015 and 2014, $50,000 have been expensed for this plan respectively.

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.