

The Heartland Institute
Audited Financial Statements
For the Years Ended December 31, 2017 and 2016

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, 2017 and 2016, 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.

Independent Auditor's Report (continued)

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, 2017 and 2016, 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.

Ligke Gross & Co., PC

Elgin, Illinois
May 24, 2018

The Heartland Institute
Statements of Financial Position
December 31, 2017 and 2016

Assets	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 686,274	\$ 227,602
Accounts receivable	2,500	15,000
Prepaid expenses	25,320	11,411
Total current assets	<u>714,094</u>	<u>254,013</u>
Property and equipment:		
Land	65,364	65,364
Building	927,143	927,143
Office equipment	229,816	229,816
Office furniture	46,005	46,005
Artwork	12,250	12,250
Less accumulated depreciation	(290,929)	(253,357)
Property and equipment, net	<u>989,649</u>	<u>1,027,221</u>
Other assets:		
Deferred compensation	591,691	480,933
Total other assets	<u>591,691</u>	<u>480,933</u>
Total Assets	<u>\$ 2,295,434</u>	<u>\$ 1,762,167</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 42,652	\$ 157,430
Payroll liabilities	69,812	56,446
Total current liabilities	<u>112,464</u>	<u>213,876</u>
Long-term liabilities:		
Deferred compensation liability	641,691	530,933
Total long-term liabilities	<u>641,691</u>	<u>530,933</u>
Net assets:		
Unrestricted	1,510,704	986,783
Temporarily restricted	30,575	30,575
Permanently restricted	-	-
Total net assets	<u>1,541,279</u>	<u>1,017,358</u>
Total Liabilities and Net Assets	<u>\$ 2,295,434</u>	<u>\$ 1,762,167</u>

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, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support and revenue received						
Contributions	\$ 5,730,718	\$ -	\$ 5,730,718	\$ 5,322,688	\$ -	\$ 5,322,688
Publications/research	27,694	-	27,694	2,226	-	2,226
Advertising	-	-	-	6,439	-	6,439
Fundraising events	1,070	-	1,070	102,685	-	102,685
Other events	63,231	-	63,231	7,503	-	7,503
Premiums	2,238	-	2,238	38,249	-	38,249
Interest income	461	-	461	1,288	-	1,288
In-kind contributions	170,303	-	170,303	28,112	-	28,112
Total revenue	<u>5,995,715</u>	<u>-</u>	<u>5,995,715</u>	<u>5,509,190</u>	<u>-</u>	<u>5,509,190</u>
Net assets released from restrictions - satisfaction of program restrictions	-	-	-	-	-	-
Expenses						
Program services	4,272,214	-	4,272,214	4,437,148	-	4,437,148
Support services	565,547	-	565,547	395,496	-	395,496
Fundraising services	634,033	-	634,033	720,304	-	720,304
Total expenses	<u>5,471,794</u>	<u>-</u>	<u>5,471,794</u>	<u>5,552,948</u>	<u>-</u>	<u>5,552,948</u>
Change in net assets	523,921	-	523,921	(43,758)	-	(43,758)
Net assets, beginning of year	986,783	30,575	1,017,358	1,030,541	30,575	1,061,116
Net assets, end of year	<u>\$ 1,510,704</u>	<u>\$ 30,575</u>	<u>\$ 1,541,279</u>	<u>\$ 986,783</u>	<u>\$ 30,575</u>	<u>\$ 1,017,358</u>

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

The Heartland Institute
Statements of Functional Expenses
For the Years Ended December 31, 2017 and 2016
Part I

Expenses:	Programs				Total	Total Expenses December 31, 2017	Total Expenses December 31, 2016
	Publications/ Editorial	Government Relations	Public Relations	Program Services			
Salaries and wages	\$ 454,879	\$ 296,747	\$ 584,204	\$ 1,335,830	\$ 374,429	\$ 2,080,144	\$ 2,017,039
Benefits	24,822	29,995	83,757	138,574	40,664	213,896	206,549
Payroll taxes	33,895	22,950	44,337	101,182	26,524	153,035	147,484
Accounting/payroll fees/legal fees	15,624	13,401	22,185	51,210	27,982	93,168	88,190
Supplies/furniture/equipment	1,968	1,229	14,010	17,207	2,450	22,332	32,689
Telephone/data	10,246	11,096	13,619	34,961	11,196	57,065	61,326
Postage and shipping	466,105	3,025	35,758	504,888	553	547,485	399,071
Occupancy	27,447	27,447	27,447	82,341	27,447	137,235	150,240
Equipment rental/maintenance	4,306	4,306	4,306	12,918	4,306	21,530	23,005
Printing and publications	328,725	1,919	32,031	362,675	1,728	380,602	604,762
Travel	21,237	55,609	117,657	194,503	22,516	247,809	277,131
Conferences/meetings	1,395	35,806	394,048	431,249	-	432,595	237,897
Interest	213	213	213	639	213	1,065	3,200
Depreciation	7,514	7,514	7,514	22,542	7,514	37,570	37,425
Other Expenses:							
Advertising and public relations	-	-	23,416	23,416	-	24,020	64,752
Special project management	-	-	-	-	-	18,500	35,001
Editors, writers, and speakers	357,183	36,530	147,935	541,648	53	560,101	652,873
News wire and clipping services	-	1,860	159,975	161,835	-	161,835	52,279
Web site and DVD duplication	39,328	-	-	39,328	-	42,387	363,729
Library and subscriptions	4,401	-	10,679	15,080	602	16,825	12,852
Memberships	-	13,500	2,384	15,884	199	16,453	15,881
Government and bank fees	4,667	4,667	4,667	14,001	4,667	23,335	28,585
Survey and telemarketing	-	-	-	-	-	-	12,375
Moving/staff relocation	-	-	-	-	12,504	12,504	500
Contributions/grants	-	-	-	-	-	-	-
In-kind expense	56,768	56,768	56,767	170,303	-	170,303	28,113
Total Expenses:	\$ 1,860,723	\$ 624,582	\$ 1,786,909	\$ 4,272,214	\$ 565,547	\$ 5,471,794	\$ 5,552,948
Percentage of total	34%	11%	33%	78%	10%	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, 2017 and 2016
Part 2

Expenses:	----- Programs -----				Total		
	Publications/ Editorial	Government Relations	Public Relations	Program Services	Support Services	Fundraising Services	Total Expenses December 31, 2016
Salaries and wages	\$ 395,686	\$ 372,878	\$ 606,910	\$ 1,375,474	\$ 266,643	\$ 374,922	\$ 2,017,039
Benefits	16,619	41,927	89,951	148,497	28,025	30,027	206,549
Payroll taxes	28,872	28,823	47,234	104,929	18,591	23,964	147,484
Accounting/payroll fees/legal fees	18,556	20,853	27,878	67,287	9,027	11,876	88,190
Supplies/furniture/equipment	3,687	2,693	12,978	19,358	2,805	10,526	32,689
Telephone/data	10,834	12,884	14,840	38,558	11,384	11,384	61,326
Postage and shipping	231,545	10,989	102,001	344,535	2,320	52,216	399,071
Occupancy	30,048	30,048	30,048	90,144	30,048	30,048	150,240
Equipment rental/maintenance	4,601	4,601	4,601	13,803	4,601	4,601	23,005
Printing and publications	534,863	9,774	32,739	577,376	1,041	26,345	604,762
Travel	36,185	97,024	103,002	236,211	5,078	35,842	277,131
Conferences/meetings	925	142,727	46,684	190,336	538	47,023	237,897
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
Other Expenses:							
Advertising and public relations	-	-	59,386	59,386	1,126	4,240	64,752
Special project management	-	-	-	-	-	35,001	35,001
Editors, writers, and speakers	395,726	34,500	219,662	649,888	-	2,985	652,873
News wire and clipping services	-	5,800	46,479	52,279	-	-	52,279
Web site and DVD duplication	363,729	-	-	363,729	-	-	363,729
Library and subscriptions	7,793	-	4,501	12,294	12	546	12,852
Memberships	225	12,725	1,725	14,675	415	791	15,881
Government and bank fees	5,717	5,717	5,717	17,151	5,717	5,717	28,585
Survey and telemarketing	-	4,125	4,125	8,250	-	4,125	12,375
Moving/staff relocation	-	500	-	500	-	-	500
Contributions/grants	-	-	-	-	-	-	-
In-kind expense	9,371	9,371	9,371	28,113	-	-	28,113
Total Expenses:	\$ 2,103,107	\$ 856,084	\$ 1,477,957	\$ 4,437,148	\$ 395,496	\$ 720,304	\$ 5,552,948
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 Cash Flows
For the Years Ending December 31, 2017 and 2016

	2017	2016
Cash flow from operating activities:		
Change in net assets	\$ 523,921	\$ (43,758)
Add items not requiring an outlay of cash:		
Depreciation	37,570	37,425
(Increase) decrease in current assets:		
Prepaid expenses	(13,909)	5,545
Accounts receivable	12,500	45,000
Security deposits	-	-
Deferred compensation	(110,759)	(83,168)
Increase (decrease) in current liabilities:		
Accounts payable	(114,776)	(78,905)
Payroll liabilities	13,366	1,931
Deferred compensation liability	110,759	83,168
Net cash provided by (used in) operating activities	458,672	(32,762)
 Cash flow from investing activities:		
Capital expenditures		
Equipment and furniture	-	(7,271)
Donated capital assets	-	(17,003)
Net cash provided by (used in) investing activities	-	(24,274)
 Cash flow from financing activities:		
Net cash provided by (used in) financing activities	-	-
 Increase (decrease) in cash	458,672	(57,036)
Cash and cash equivalents balance, beginning of year	227,602	284,638
Cash and cash equivalents balance, end of year	\$ 686,274	\$ 227,602
 Supplemental Disclosure		
Cash Paid for Interest	\$ 1,065	\$ 3,202

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

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

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 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, 2017 and 2016, The Organization had unrestricted net assets of \$1,510,704 and \$986,783, 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, 2017 and 2016, the Organization had temporarily restricted net assets of \$30,575.

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 Organization does not have permanently restricted net assets as of December 31, 2017 and 2016.

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.

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

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 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 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.

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

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, 2017 and 2016.

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, 2017 and 2016, 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.

Note 2 – Fixed Assets

Property and equipment at December 31, 2017 consists of the following:

	Cost	Acquisitions/ (Deletions)	Cost	Accumulated Depreciation
	<u>12/31/2016</u>	<u>(Deletions)</u>	<u>12/31/2017</u>	<u>12/31/2017</u>
Depreciable assets:				
Building	\$ 927,143	\$ -	\$ 927,143	\$ (66,783)
Leasehold improvements	-	-	-	-
Office furniture	46,005	-	46,005	(22,041)
Office equipment	229,816	-	229,816	(202,105)
Non-depreciable assets:				
Land	65,364	-	65,364	-
Artwork	12,250	-	12,250	-
Total fixed assets	<u>\$ 1,280,578</u>	<u>\$ -</u>	<u>\$ 1,280,578</u>	<u>\$ (290,929)</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$37,570 and \$37,425 respectively.

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

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 \$247 per month.

Following are the minimum future lease commitments:

<u>Period ending</u>	
December 31, 2018	\$ 14,427
December 31, 2019	11,743
December 31, 2020	7,985
December 31, 2021	<u>5,148</u>
Total	\$ <u>39,303</u>

Note 4 – Concentrations

Approximately 31% and 33% of the Organization’s total support and revenues for the years ended December 31, 2017 and 2016 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.

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

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.

The Heartland Institute
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

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 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 following table sets forth by level, within the fair value hierarchy, The Heartland Institute's assets at fair value as of December 31, 2017 and 2016:

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

Assets at Fair Value as of December 31, 2016				
	Level 1	Level 2	Level 3	Total
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	\$ 480,933	\$ -	\$ -	\$ 480,933

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, 2017 and 2016, \$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.