

# SECURITIES AND EXCHANGE COMMISSION

## FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

Filing Date: **1997-03-10** | Period of Report: **1996-12-31**  
SEC Accession No. **0000950124-97-001392**

([HTML Version](#) on [secdatabase.com](#))

### FILER

#### HEARTLAND GROUP INC

CIK: **809586** | IRS No.: **391572323** | State of Incorpor.: **MD** | Fiscal Year End: **1231**  
Type: **N-30D** | Act: **40** | File No.: **811-04982** | Film No.: **97553075**

Business Address  
790 N MILWAUKEE ST  
MILWAUKEE WI 53202  
4143477773

[Logo] Heartland Funds  
 -----  
 AMERICA'S VALUE INVESTOR

VALUE REPORT

December 31, 1996

Notes on value investing  
 for investors in the Heartland  
 Wisconsin Tax Free Fund

ANNUAL REPORT  
 TO SHAREHOLDERS

VALUE REPORT

Dear Fellow Shareholders

[Photo of  
 Pat Retzer]

After a standout year in 1995, both the bond market and Heartland Wisconsin Tax Free Fund realized more moderate returns in 1996. While our Fund saw its share price slip from \$10.30 to \$10.16, it paid dividends of \$.51 per share, for a total return of 3.8%. Dividends were 100% exempt from Wisconsin and federal income tax.\*

We believe the Fund continues to be an excellent investment...

- MONTHLY INCOME, DOUBLE TAX-FREE. Our January yield of 5.1% equals a 9.3% taxable yield in the maximum tax bracket.\*\* (Of course, monthly yields will fluctuate.) The Fund's average annual total returns were 3.81% and 6.29%, respectively, for the 1-year and since-inception (4/3/92) periods ended 12-31-96.
- WISCONSIN'S LARGEST DOUBLE TAX-FREE FUND. We feel our size lets us take advantage of economies of scale and keep the expense ratio relatively low.
- A 100% NO-LOAD INVESTMENT. We are the only Wisconsin double tax-free fund without sales charges or 12b-1 fees. Our yield and returns reflect this advantage. Compare them to the other Wisconsin funds.

We believe these features make the Fund a compelling investment opportunity in this period of high tax rates and volatile financial markets. If you have a question, please call us at 1-800-432-7856.

Sincerely,

Patrick J. Retzer  
 Senior Vice President  
 Portfolio Manager

February, 1997

\*For 1996, 8.23% of the Fund's income was an item of tax preference for purposes of computing the federal alternative minimum tax.  
 \*\*SEC yield for the 30 days commencing 1-1-97.

VALUE REPORT

Heartland Wisconsin Tax Free Fund

BIGGER CAN BE BETTER

We've long talked about our advantageous position as the largest Wisconsin tax-free fund. Right now, in fact, we're more than four times the size of the second largest. We believe our size enables us to be major investors in attractive new issues, and to pass on those that fail to meet our standards.

RECENTLY, THE APPLETON HOUSING AUTHORITY issued a security with features that we found especially attractive. The project was a 74-unit rental facility designed for independent senior living and scheduled for completion in May '97.

Along with yields as high as 6.75%, there were other factors that gave us confidence the project would perform. For example, while the facility would require \$5.7 million, only \$4.1 million was being borrowed. The other 28% was being financed by the project owner and the Appleton Housing Authority. We value that significant a level of equity participation.

In addition, the management company was highly focused and experienced. Its portfolio included over 3,500 units, 1,240 of which were senior rental apartments.

Because this issue was so attractive, we wanted a significant portion, and our presence in the Wisconsin marketplace enabled us to invest \$1.3 million -- for nearly one-third of the offering.

On 12-31-96, the Fund's Appleton Housing Authority bonds -- 6.5% due 10-1-16 and 6.75% due 10-1-26 -- were valued at \$1.3 million, or 1.0% of the Fund's net assets.

VALUE REPORT

PORTFOLIO PROFILE

OBJECTIVE

The Heartland Wisconsin Tax Free Fund seeks a high level of current income that is exempt from Wisconsin and federal personal income taxes.

AVERAGE ANNUAL RETURNS

|                                     | 1-year | 3-year | Since inception<br>4/3/92 |
|-------------------------------------|--------|--------|---------------------------|
|                                     | -----  | -----  | -----                     |
| Heartland Wisconsin Tax Free Fund   | 3.8%   | 4.6%   | 6.3%                      |
| Lehman 20-Year Municipal Bond Index | 4.5    | 5.4    | 8.3                       |

The Lehman 20-Year Municipal Bond Index is an unmanaged index of certain investment grade municipal securities with maturities between 17 and 22 years.

GENERAL INFORMATION

|                           |           |                              |           |
|---------------------------|-----------|------------------------------|-----------|
| Inception                 | 4/3/92    | Weighted average duration    | 11.4 YRS. |
| Net assets                | \$125 MIL | January yield                | 5.14%     |
| Share price               | \$10.16   | SEC yield annualized for the |           |
| Number of issues          | 223       | 30 days commencing 1/1/97.   |           |
| Weighted average maturity | 19.2 YRS. | Sales commission             | NONE      |

| TOP 5 HOLDINGS                    | COUPON | MATURITY   | % OF NET ASSETS |
|-----------------------------------|--------|------------|-----------------|
| Wisconsin Center Revenue Bond     | 5.7%   | 12/15/2020 | 9.0%            |
| Milwaukee, WI Redevelopment Auth. | 5.5    | 09/01/2012 | 8.9             |
| Guam Power Authority - Series A   | 6.3    | 10/01/2012 | 2.8             |
| Brown County, WI HSG Authority    | 6.5    | 06/01/2019 | 2.7             |
| Green Bay, WI Housing Authority   | 6.5    | 09/01/2019 | 2.5             |

PORTFOLIO COMPOSITION BY REGION

[graphic - A pie chart displays categories of the Heartland Wisconsin Tax Free Fund's portfolio by region as of 12/31/96: Wisconsin at 84.8%; Guam at 7.7%; Puerto Rico at 6.6%; cash & equivalents at 0.9%]

All statistics are as of December 31, 1996.

2

5

#### VALUE REPORT

#### HEARTLAND WISCONSIN TAX FREE FUND

#### MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE

After a superb 1995, investors in tax-free bonds experienced more moderate returns in 1996. Consistent with this trend, the Heartland Wisconsin Tax Free Fund's total return for '96 was 3.8% versus 17.8% the year before.

Our '96 return trailed the 4.5% return of our benchmark, the Lehman 20-year Municipal Bond Index. Keep in mind, however, that a fund's return reflects the expenses of running its portfolio, while an index has absolutely no expenses. In addition, because Wisconsin's income tax is among the nation's highest, our tax-free bonds typically yield slightly less than those of other states.

During '96, the negative interest rate environment presented a particular challenge. From 6.0% in January, the yield on the 30-year Treasury bond rose to 7.2% in June, closing the year at 6.6%. This rise in rates reflected both a stronger than expected economy and fears that the Federal Reserve would raise short-term rates.

Nonetheless, we kept the Fund's maturity rather long throughout the year -- between 15.6 and 21.8 years. We chose to do so because of our favorable outlook for tax-free bonds and the substantially

[line chart illustrating performance of an assumed investment of \$10,000 in the Heartland Wisconsin Tax Free Fund and the Lehman 20 Year Municipal Bond Index beginning on April 3, 1992 as follows:

|          | Heartland Wisconsin<br>Tax Free Fund | Lehman Index |
|----------|--------------------------------------|--------------|
| 12/31/92 | \$10,546                             | \$10,901     |
| 12/31/93 | 11,686                               | 12,468       |
| 12/31/94 | 10,927                               | 11,553       |
| 12/31/95 | 12,868                               | 13,971       |
| 12/31/96 | 13,359                               | 14,591       |

Legend in graph states that Past Performance is not predictive of future results.

A box below the graph states  
Average Annual Total Returns as of 12/31/96 as follows:

|                 |      |
|-----------------|------|
| one year        | 3.8% |
| three year      | 4.6% |
| since inception | 6.3% |

higher yields available from longer-term issues. We continued to add attractive Wisconsin issues to the portfolio, while cutting our Puerto Rican holdings from 20.2% to 6.6%.

Because we believe that '97 will be a much better year for investors in tax-free bonds, we have positioned the Fund to start the year with an average portfolio maturity of 19.2 years.

3

6

#### THE VALUE OF DOUBLE TAX-FREE INCOME

As you can see below, the Heartland Wisconsin Tax Free Fund is designed

to produce income you can keep. And the higher your federal income tax bracket, the more benefit you realize from double tax-free investing.

| <S>                         | <C>                       | <C>      | <C>      | <C>      |
|-----------------------------|---------------------------|----------|----------|----------|
| Federal Tax Brackets        | 28.0%                     | 31.0%    | 36.0%    | 39.6%    |
| Effective Federal Tax Rates | 29.4%(1)                  | 32.6%(1) | 37.8%(1) | 40.8%(2) |
| Wisconsin Rate              | 6.9%                      | 6.9%     | 6.9%     | 6.9%     |
| Combined Rates              | 34.3%                     | 37.2%    | 42.1%    | 44.9%    |
| DOUBLE TAX-FREE YIELD*      | EQUIVALENT TAXABLE YIELDS |          |          |          |
| 5.0%                        | 7.6%                      | 8.0%     | 8.6%     | 9.1%     |

This chart is for illustrative purposes only and is not intended to predict actual yields.

\* Up to 20% of the Fund's assets may be invested with income subject to the alternative minimum tax.

(1) Based on 28%, 31% and 36% federal rates, adjusted for the phase-out of itemized deductions and personal exemptions.

(2) Based on 36% federal rate, 10% surcharge and phase-out of itemized deductions.

To make an additional investment, use the reinvestment slip and postage-paid envelope we have enclosed for your convenience.

HEARTLAND WISCONSIN TAX FREE FUND  
SCHEDULE OF INVESTMENTS o December 31, 1996

<TABLE>  
<CAPTION>

| PAR AMOUNT | MUNICIPAL BONDS - 99.1%                                     | COUPON | MATURITY   | VALUE     |
|------------|---|--------|------------|-----------|
| <S>        | <C>   | <C>    | <C>        | <C>       |
|            | WISCONSIN - 84.8%   |        |            |           |
| \$ 20,000  | Amery, WI Housing Authority - Revenue Bonds .....           | 7.375% | 05/01/2005 | \$ 21,175 |
| 300,000    | Appleton, WI Housing Authority - Industrial Park .....      | 6.500  | 10/01/2016 | 299,625   |
| 1,000,000  | Appleton, WI Housing Authority - Industrial Park .....      | 6.750  | 10/01/2026 | 998,750   |
| 125,000    | Barron, WI Housing Authority - Maplecroft Project .....     | 0.000  | 10/01/2004 | 81,250    |
| 130,000    | Barron, WI Housing Authority - Maplecroft Project .....     | 0.000  | 10/01/2008 | 65,488    |
| 35,000     | Barron, WI Housing Authority - Maplecroft Project .....     | 0.000  | 10/01/2005 | 21,394    |
| 520,000    | Barron, WI Housing Authority - Maplecroft Project .....     | 5.375  | 10/01/2011 | 503,750   |
| 130,000    | Barron, WI Housing Authority - Maplecroft Project .....     | 0.000  | 10/01/2006 | 74,425    |
| 85,000     | Barron, WI Housing Authority - Maplecroft Project .....     | 0.000  | 10/01/2007 | 45,687    |
| 1,000,000  | Bristol, WI Community Development Authority .....           | 6.125  | 03/01/2012 | 1,012,500 |
| 3,220,000  | Brown County, WI Housing Authority - R. P. Terrace .....    | 6.500  | 06/01/2019 | 3,320,625 |
| 75,000     | Dane County, WI Housing Authority - Forest Harbor Apts. ... | 5.950  | 07/01/2013 | 75,000    |
| 25,000     | Dane County, WI Housing Authority - Forest Harbor Apts. ... | 6.000  | 07/01/2014 | 25,062    |
| 435,000    | Deforest, WI Redev. Auth. - Lease Revenue Bonds .....       | 6.250  | 02/01/2018 | 450,225   |
| 265,000    | Deforest, WI Redev. Auth. - Lease Revenue Bonds .....       | 6.200  | 02/01/2014 | 275,269   |
| 685,000    | Eau Claire, WI Housing Auth. - London Hill .....            | 6.250  | 05/01/2015 | 694,419   |
| 550,000    | Elkhart Lake, WI Community Development Authority .....      | 6.000  | 04/01/2015 | 552,062   |
| 205,000    | Evansville, WI Housing Authority - Baker Block Project ...  | 5.750  | 12/01/2016 | 202,950   |
| 250,000    | Franklin, WI Community Development Authority .....          | 6.150  | 04/01/2012 | 253,437   |
| 890,000    | Franklin, WI Community Development Authority .....          | 6.100  | 04/01/2010 | 906,687   |
| 1,000,000  | Franklin, WI Community Development Authority .....          | 6.050  | 04/01/2008 | 1,026,250 |
| 250,000    | Franklin, WI Community Development Authority .....          | 5.850  | 04/01/2006 | 256,562   |
| 10,000     | Franklin, WI Community Development Authority .....          | 5.400  | 04/01/2003 | 10,000    |
| 3,000,000  | Green Bay, WI Housing Authority - Pheasant Run Project ...  | 6.500  | 09/01/2019 | 3,067,500 |
| 200,000    | Hartford, WI Community Development Authority .....          | 5.800  | 12/01/2005 | 209,250   |
| 100,000    | Hartford, WI Community Development Authority .....          | 5.450  | 12/01/2002 | 103,625   |
| 210,000    | Hartford, WI Community Development Authority .....          | 6.000  | 12/01/2007 | 220,237   |
| 225,000    | Hartford, WI Community Development Authority .....          | 6.100  | 12/01/2008 | 235,969   |
| 10,000     | Hudson, WI Christian Community Home .....                   | 8.000  | 07/01/2005 | 10,000    |
| 75,000     | Hudson, WI Christian Community Home .....                   | 6.800  | 05/01/2009 | 75,844    |
| 65,000     | Hudson, WI Christian Community Home .....                   | 6.900  | 05/01/2010 | 65,894    |
| 250,000    | Hudson, WI Christian Community Home .....                   | 7.000  | 05/01/2023 | 252,500   |
| 55,000     | Hudson, WI Christian Community Home .....                   | 6.700  | 05/01/2008 | 55,619    |

|           |  |       |            |           |
|-----------|--|-------|------------|-----------|
| 390,000   | Jackson, WI Community Development Authority              | 7.000 | 12/01/2013 | 421,200   |
| 500,000   | Jackson, WI Community Development Authority              | 7.000 | 12/01/2017 | 541,875   |
| 515,000   | Jackson, WI Community Development Authority              | 7.000 | 12/01/2016 | 554,269   |
| 430,000   | Jackson, WI Community Development Authority              | 7.000 | 12/01/2014 | 466,012   |
| 345,000   | Jackson, WI Community Development Authority              | 7.000 | 12/01/2015 | 373,894   |
| 350,000   | Jackson, WI Community Development Authority              | 7.000 | 12/01/2012 | 379,312   |
| 285,000   | Jackson, WI Community Development Authority              | 6.900 | 12/01/2010 | 308,869   |
| 180,000   | Jackson, WI Community Development Authority              | 6.700 | 12/01/2008 | 195,075   |
| 105,000   | Jackson, WI Community Development Authority              | 6.600 | 12/01/2007 | 113,794   |
| 160,000   | Jackson, WI Community Development Authority              | 6.500 | 12/01/2006 | 173,600   |
| 260,000   | Jackson, WI Community Development Authority              | 6.800 | 12/01/2009 | 281,775   |
| 1,760,000 | La Crosse, WI Housing Authority - Forest Park Project    | 6.375 | 12/01/2018 | 1,777,600 |
| 1,100,000 | La Crosse, WI Housing Authority - Ping Manor Project     | 6.375 | 04/01/2012 | 1,122,000 |
| 880,000   | La Crosse, WI Housing Authority - Ping Manor Project     | 6.000 | 04/01/2005 | 886,600   |
| 350,000   | La Crosse, WI Housing Authority - Washburn               | 6.500 | 10/01/2026 | 352,625   |
| 100,000   | Little Chute, WI Community Development Authority         | 5.625 | 03/01/2019 | 100,750   |
| 305,000   | Madison, WI CDA - Dempsey Manor Project                  | 6.400 | 10/01/2018 | 309,575   |
| 160,000   | Madison, WI CDA - Dempsey Manor Project                  | 6.650 | 10/01/2025 | 160,800   |
| 1,435,000 | Madison, WI CDA - Edgewood College                       | 6.250 | 04/01/2014 | 1,454,731 |
| 95,000    | Madison, WI CDA - Greentree Project - Series A           | 7.300 | 09/01/2032 | 97,019    |
| 1,000,000 | Madison, WI CDA - Meriter Retirement Project             | 6.125 | 12/01/2019 | 1,043,750 |
| 45,000    | Madison, WI CDA - Monticello Apartments Project          | 7.125 | 04/01/2009 | 46,406    |
| 200,000   | Madison, WI CDA - Second Mortgage - Revenue Bonds        | 5.875 | 07/01/2016 | 203,750   |
| 100,000   | Marinette, WI Housing Authority - Multifamily - Series A | 6.750 | 02/01/2024 | 103,625   |
| 165,000   | Markesan, WI CDA - Elderly Housing Revenue Bonds         | 6.750 | 10/01/2009 | 166,856   |
| 190,000   | Markesan, WI CDA - Elderly Housing Revenue Bonds         | 6.900 | 10/01/2011 | 193,088   |
| 100,000   | Menomonee Falls, WI CDA - Village Square Project         | 5.200 | 09/01/2009 | 93,875    |

</TABLE>

5

8

HEARTLAND WISCONSIN TAX FREE FUND  
SCHEDULE OF INVESTMENTS [cont'd] - December 31, 1996

<TABLE>  
<CAPTION>

| PAR AMOUNT  | MUNICIPAL BONDS - 99.1% [cont'd]                        | COUPON | MATURITY   | VALUE      |
|---|---|--------|------------|------------|
| <S>   | <C>   | <C>    | <C>        | <C>        |
| -----   |   |        |            |            |
| PAR   |   |        |            |            |
| AMOUNT MUNICIPAL BONDS - 99.1% [cont'd] COUPON MATURITY VALUE |   |        |            |            |
| -----   |   |        |            |            |
| <S> <C>   |   |        |            |            |
| WISCONSIN - 84.8% [cont'd]                                    |   |        |            |            |
| \$ 950,000  | Menomonee Falls, WI CDA - Village Square Project        | 5.350% | 09/01/2016 | \$ 871,625 |
| 215,000   | Milwaukee, WI Housing Authority - Blatz Apartments      | 7.500  | 12/01/2028 | 222,794    |
| 50,000  | Milwaukee, WI New Public Housing Authority              | 5.000  | 09/01/2010 | 48,813     |
| 100,000   | Milwaukee, WI Redevelopment Auth. - Campus Town         | 5.550  | 11/01/2012 | 100,250    |
| 3,000,000   | Milwaukee, WI Redevelopment Auth. - Campus Town         | 5.700  | 11/01/2018 | 3,033,750  |
| 55,000  | Milwaukee, WI Redevelopment Auth. - Dynapro, Inc.       | 5.300  | 12/01/2007 | 55,344     |
| 65,000  | Milwaukee, WI Redevelopment Auth. - Dynapro, Inc.       | 5.350  | 12/01/2008 | 65,163     |
| 55,000  | Milwaukee, WI Redevelopment Auth. - Dynapro, Inc.       | 5.400  | 12/01/2010 | 54,313     |
| 225,000   | Milwaukee, WI Redevelopment Auth. - Dynapro, Inc.       | 5.500  | 12/01/2013 | 220,219    |
| 1,955,000   | Milwaukee, WI Redevelopment Authority - MSOE            | 6.000  | 10/01/2017 | 1,976,994  |
| 1,385,000   | Milwaukee, WI Redevelopment Authority - MSOE            | 6.000  | 10/01/2017 | 1,400,581  |
| 500,000   | Milwaukee, WI Redevelopment Authority - Schlitz Park II | 5.000  | 01/01/2015 | 505,625    |
| 10,000  | Milwaukee, WI Redevelopment Auth. - School Improve.     | 0.000  | 03/01/2004 | 6,538      |
| 1,755,000   | Milwaukee, WI Re. Auth. - Wisc. Ave./M.L. King, Jr. Dr. | 5.600  | 09/01/2009 | 1,781,325  |
| 11,000,000  | Milwaukee, WI Re. Auth. - Wisc. Ave./M.L. King, Jr. Dr. | 5.500  | 09/01/2012 | 10,972,500 |
| 1,705,000   | Milwaukee, WI Re. Auth. - Wisc. Ave./M.L. King, Jr. Dr. | 5.600  | 03/01/2009 | 1,730,575  |
| 1,300,000   | Milwaukee, WI Re. Auth. - Wisc. Ave./M.L. King, Jr. Dr. | 5.500  | 03/01/2008 | 1,319,500  |
| 650,000   | New Berlin, WI Housing Authority - Apple Glen           | 6.700  | 11/01/2020 | 684,125    |
| 1,210,000   | New Berlin, WI Housing Authority - Apple Glen           | 6.700  | 11/01/2017 | 1,273,525  |
| 65,000  | New Berlin, WI Housing Authority - Apple Glen           | 0.000  | 11/01/2007 | 34,775     |
| 70,000  | New Berlin, WI Housing Authority - Apple Glen           | 0.000  | 05/01/2010 | 31,763     |
| 65,000  | New Berlin, WI Housing Authority - Apple Glen           | 0.000  | 11/01/2009 | 30,550     |
| 70,000  | New Berlin, WI Housing Authority - Apple Glen           | 0.000  | 05/01/2009 | 33,950     |
| 70,000  | New Berlin, WI Housing Authority - Apple Glen           | 0.000  | 05/01/2005 | 43,750     |
| 70,000  | New Berlin, WI Housing Authority - Apple Glen           | 0.000  | 05/01/2007 | 38,500     |
| 65,000  | New Berlin, WI Housing Authority - Apple Glen           | 0.000  | 11/01/2004 | 42,169     |
| 65,000  | New Berlin, WI Housing Authority - Apple Glen           | 0.000  | 11/01/2006 | 36,969     |
| 65,000  | New Berlin, WI Housing Authority - Apple Glen           | 0.000  | 11/01/2003 | 44,850     |
| 65,000  | New Berlin, WI Housing Authority - Apple Glen           | 0.000  | 11/01/2005 | 39,488     |
| 70,000  | New Berlin, WI Housing Authority - Apple Glen           | 0.000  | 05/01/2006 | 41,038     |
| 165,000   | New Berlin, WI Housing Authority - Pinewood Creek       | 6.800  | 11/01/2012 | 166,856    |
| 190,000   | New Berlin, WI Housing Authority - Pinewood Creek       | 6.900  | 11/01/2014 | 198,075    |
| 135,000   | New Berlin, WI Housing Authority - Pinewood Creek       | 6.900  | 05/01/2014 | 136,519    |
| 165,000   | New Berlin, WI Housing Authority - Pinewood Creek       | 6.850  | 11/01/2013 | 175,313    |

|           |   |        |            |           |
|-----------|---|--------|------------|-----------|
| 160,000   | New Berlin, WI Housing Authority - Pinewood Creek | 6.850  | 05/01/2013 | 161,800   |
| 105,000   | New Berlin, WI Housing Authority - Pinewood Creek | 6.500  | 05/01/2009 | 105,131   |
| 155,000   | New Berlin, WI Housing Authority - Pinewood Creek | 6.700  | 11/01/2011 | 156,356   |
| 150,000   | New Berlin, WI Housing Authority - Pinewood Creek | 6.700  | 05/01/2011 | 151,313   |
| 125,000   | New Berlin, WI Housing Authority - Pinewood Creek | 6.600  | 05/01/2010 | 131,563   |
| 125,000   | New Berlin, WI Housing Authority - Pinewood Creek | 6.400  | 11/01/2008 | 125,156   |
| 125,000   | New Berlin, WI Housing Authority - Pinewood Creek | 6.400  | 05/01/2008 | 125,156   |
| 1,015,000 | New Berlin, WI Housing Authority - Pinewood Creek | 7.125  | 05/01/2024 | 1,083,513 |
| 80,000    | Oak Creek, WI Housing Authority - Country Oaks II | 6.000  | 08/01/2010 | 80,200    |
| 2,980,000 | Oak Creek, WI Housing Authority - Country Oaks II | 6.300  | 08/01/2028 | 3,058,225 |
| 1,440,000 | Oak Creek, WI Housing Authority - Country Oaks II | 6.200  | 08/01/2017 | 1,443,600 |
| 10,000    | Oak Creek, WI Housing Authority - Multifamily     | 7.750  | 03/01/2031 | 10,400    |
| 125,000   | Oak Creek, WI Housing Authority - Wood Creek      | 0.000  | 01/20/2013 | 47,500    |
| 2,130,000 | Oak Creek, WI Housing Authority - Wood Creek      | 5.625  | 07/20/2029 | 2,047,463 |
| 1,000,000 | Oak Creek, WI Housing Authority - Wood Creek      | 5.500  | 07/20/2019 | 965,000   |
| 60,000    | Oak Creek, WI Housing Authority - Wood Creek      | 0.000  | 01/20/2014 | 21,300    |
| 125,000   | Oak Creek, WI Housing Authority - Wood Creek      | 0.000  | 07/20/2013 | 45,781    |
| 65,000    | Oak Creek, WI Housing Authority - Wood Creek      | 0.000  | 01/20/2012 | 26,244    |
| 125,000   | Oak Creek, WI Housing Authority - Wood Creek      | 0.000  | 07/20/2011 | 52,344    |
| 125,000   | Oak Creek, WI Housing Authority - Wood Creek      | 0.000  | 01/20/2011 | 54,063    |
| 35,000    | Oak Creek, WI Housing Authority - Wood Creek      | 0.000  | 01/20/2010 | 16,144    |
| 50,000    | Oak Creek, WI Housing Authority - Wood Creek      | 0.000  | 07/20/2007 | 27,187    |
| 100,000   | Oak Creek, WI Housing Authority - Wood Creek      | 27.750 | 07/20/1998 | 133,500   |
| 335,000   | Omro, WI CDA - Revenue Bonds                      | 5.875  | 12/01/2011 | 348,819   |
| 50,000    | Omro, WI CDA - Revenue Bonds                      | 5.750  | 12/01/2006 | 52,937    |
| 200,000   | Outagamie, WI Housing Authority - First Mortgage  | 5.000  | 11/15/2003 | 195,750   |

</TABLE>

HEARTLAND WISCONSIN TAX FREE FUND  
SCHEDULE OF INVESTMENTS [cont'd] - December 31, 1996

<TABLE>  
<CAPTION>

| PAR AMOUNT | MUNICIPAL BONDS - 99.1% [cont'd]                           | COUPON | MATURITY   | VALUE     |
|------------|--|--------|------------|-----------|
| <S>        | <C>  | <C>    | <C>        | <C>       |
|            | WISCONSIN - 84.8% [cont'd]                                 |        |            |           |
| \$ 10,000  | Racine, WI Elderly Housing Authority - Lincoln Lutheran .. | 7.150% | 10/01/2005 | \$ 10,000 |
| 5,000      | Racine, WI Elderly Housing Authority - Lincoln Lutheran .. | 7.100  | 10/01/2004 | 5,000     |
| 50,000     | Reedsville, WI - New Public Housing Authority .....        | 5.125  | 04/01/2011 | 49,125    |
| 170,000    | Schofield, WI CDA - Lease Revenue .....                    | 6.000  | 10/01/2012 | 172,550   |
| 500,000    | Schofield, WI CDA - Lease Revenue .....                    | 6.200  | 10/01/2017 | 507,500   |
| 315,000    | Sheboygan, WI Housing Authority - Multifamily Housing .... | 6.900  | 02/01/2024 | 324,056   |
| 125,000    | Sheboygan, WI Housing Authority - Rocky Knoll Project .... | 5.300  | 12/01/2016 | 117,031   |
| 175,000    | Sheboygan, WI Housing Authority - Rocky Knoll Project .... | 5.250  | 12/01/2013 | 163,188   |
| 35,000     | Slinger, WI Redevelopment Auth. - Lease Revenue .....      | 5.800  | 09/01/2007 | 35,612    |
| 95,000     | Slinger, WI Redevelopment Auth. - Lease Revenue .....      | 5.850  | 09/01/2008 | 96,425    |
| 540,000    | Slinger, WI Redevelopment Auth. - Lease Revenue .....      | 6.250  | 09/01/2017 | 552,150   |
| 560,000    | Stevens Point, WI CDA - Mrtge. Refunding - Edgewater ....  | 6.625  | 09/01/2009 | 586,600   |
| 100,000    | Stevens Point, WI CDA - Mrtge. Refunding - Edgewater ....  | 6.500  | 09/01/2006 | 105,625   |
| 435,000    | Sturtevant, WI CDA - Redevelopment Lease .....             | 5.700  | 12/01/2009 | 438,262   |
| 375,000    | Sturtevant, WI CDA - Redevelopment Lease .....             | 5.800  | 12/01/2010 | 378,750   |
| 200,000    | Sturtevant, WI CDA - Redevelopment Lease .....             | 5.900  | 12/01/2011 | 202,750   |
| 1,000,000  | Sturtevant, WI CDA - Redevelopment Lease .....             | 6.000  | 12/01/2015 | 1,017,500 |
| 200,000    | Sturtevant, WI CDA - Redevelopment Lease .....             | 6.500  | 12/01/2015 | 210,500   |
| 1,190,000  | St. Croix Falls, WI CDA Lease Revenue .....                | 6.400  | 12/01/2014 | 1,218,262 |
| 115,000    | St. Croix Falls, WI CDA Lease Revenue .....                | 6.000  | 12/01/2007 | 118,162   |
| 105,000    | St. Croix Falls, WI CDA Lease Revenue .....                | 5.900  | 12/01/2006 | 107,625   |
| 310,000    | Superior, WI Housing Authority - St. Francis Project ....  | 6.000  | 01/20/2022 | 315,037   |
| 305,000    | Superior, WI RA - Superior Memorial Hospital Mortgage ...  | 5.700  | 05/01/2009 | 311,862   |
| 195,000    | Sussex, WI CDA - Revenue Bond .....                        | 5.700  | 04/01/2007 | 196,706   |
| 1,900,000  | Sussex, WI CDA - Revenue Bond .....                        | 6.100  | 04/01/2015 | 1,928,500 |
| 270,000    | Two Rivers, WI CDA - Arch Forest Project .....             | 6.350  | 12/15/2012 | 280,800   |
| 500,000    | Waukesha, WI HA - Multifamily Brookfield Woods .....       | 6.750  | 12/01/2034 | 506,250   |
| 5,000      | Waukesha, WI HA - Multifamily Summit Woods .....           | 7.375  | 12/01/2024 | 5,000     |
| 405,000    | Waukesha, WI HA - Multifamily - Court Apartments .....     | 5.800  | 04/01/2025 | 400,444   |
| 10,000     | Waukesha, WI HA - Multifamily - Court Apartments .....     | 6.300  | 12/01/2013 | 10,000    |
| 1,000,000  | Waukesha, WI HA - Multifamily - Court Apartments .....     | 6.000  | 04/01/2036 | 918,750   |
| 1,000,000  | Waukesha, WI HA - Westgrove Woods - A .....                | 6.000  | 12/01/2031 | 998,750   |
| 715,000    | Waukesha, WI HA - Westgrove Woods - C .....                | 6.750  | 02/01/2027 | 714,106   |
| 5,000      | Waukesha, WI RA - Barstow Associates .....                 | 4.875  | 08/01/2010 | 5,000     |
| 95,000     | Waupaca, WI CDA - Series A .....                           | 6.100  | 10/01/2008 | 97,731    |
| 100,000    | Waupaca, WI CDA - Series A .....                           | 6.200  | 10/01/2010 | 102,625   |
| 110,000    | Waupaca, WI CDA - Series A .....                           | 6.200  | 10/01/2011 | 112,750   |

|           |  |       |            |           |
|-----------|--|-------|------------|-----------|
| 120,000   | Waupaca, WI CDA - Series A .....                         | 6.200 | 10/01/2012 | 122,400   |
| 100,000   | Waupaca, WI CDA - Series A .....                         | 6.100 | 10/01/2009 | 102,500   |
| 105,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 05/01/2010 | 47,644    |
| 105,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 05/01/2009 | 50,925    |
| 100,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 11/01/2009 | 47,000    |
| 1,060,000 | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 6.700 | 11/01/2019 | 1,081,200 |
| 100,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 11/01/2010 | 44,000    |
| 1,200,000 | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 6.700 | 11/01/2015 | 1,228,500 |
| 105,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 05/01/2008 | 54,206    |
| 670,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 6.700 | 11/01/2022 | 683,400   |
| 100,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 11/01/2008 | 50,125    |
| 100,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 11/01/2006 | 56,875    |
| 100,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 11/01/2007 | 53,500    |
| 105,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 05/01/2004 | 69,956    |
| 75,000    | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 05/01/2003 | 53,156    |
| 100,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 11/01/2003 | 69,000    |
| 70,000    | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 05/01/2005 | 43,662    |
| 100,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 11/01/2004 | 64,875    |
| 105,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 05/01/2007 | 57,750    |
| 100,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 11/01/2005 | 60,750    |
| 105,000   | Wauwatosa, WI HA - Hawthorne Terrace Project .....       | 0.000 | 05/01/2006 | 61,556    |
| 2,720,000 | West Allis, WI CDA - Poblocki Investments Project .....  | 6.100 | 05/01/2007 | 2,805,000 |
| 150,000   | Whitewater, WI Multifamily Housing - Revenue Bonds ..... | 5.375 | 11/15/2005 | 150,750   |

</TABLE>

HEARTLAND WISCONSIN TAX FREE FUND  
SCHEDULE OF INVESTMENTS [cont'd] - December 31, 1996

<TABLE>  
<CAPTION>

| PAR AMOUNT | MUNICIPAL BONDS - 99.1% [cont'd]                         | COUPON | MATURITY   | VALUE       |
|------------|--|--------|------------|-------------|
| <S>        | <C>  | <C>    | <C>        | <C>         |
|            | WISCONSIN - 84.8% [cont'd]                               |        |            |             |
| \$ 100,000 | Winnebago County, WI HA - 1st Mortgage Rev. Bonds .....  | 5.625% | 05/01/2005 | \$ 100,125  |
| 115,000    | Winnebago County, WI HA - 1st Mortgage Rev. Bonds .....  | 5.625  | 05/01/2007 | 109,394     |
| 120,000    | Winnebago County, WI HA - 1st Mortgage Rev. Bonds .....  | 5.625  | 05/01/2008 | 112,800     |
| 125,000    | Winnebago County, WI HA - 1st Mortgage Rev. Bonds .....  | 5.625  | 05/01/2009 | 115,937     |
| 135,000    | Winnebago County, WI HA - 1st Mortgage Rev. Bonds .....  | 5.625  | 05/01/2010 | 130,275     |
| 105,000    | Winnebago County, WI HA - 1st Mortgage Rev. Bonds .....  | 5.625  | 05/01/2006 | 100,931     |
| 10,000     | Winnebago County, WI Housing Authority - Series A .....  | 6.200  | 03/01/2001 | 10,362      |
| 15,000     | Winnebago County, WI Housing Authority - Series A .....  | 6.300  | 03/01/2002 | 15,619      |
| 10,000     | Winnebago County, WI Housing Authority - Series A .....  | 6.000  | 03/01/1999 | 10,213      |
| 10,000     | Winnebago County, WI Housing Authority - Series A .....  | 6.100  | 03/01/2000 | 10,288      |
| 380,000    | Winnebago County, WI Housing Authority - Series A .....  | 7.125  | 03/01/2022 | 392,350     |
| 195,000    | Winnebago County, WI Housing Authority - Series A .....  | 6.875  | 03/01/2012 | 200,606     |
| 2,000,000  | Wisc. Center Revenue Bond - Public Improvements .....    | 0.000  | 12/15/2020 | 495,000     |
| 2,000,000  | Wisc. Center Revenue Bond - Public Improvements .....    | 0.000  | 12/15/2019 | 525,000     |
| 2,750,000  | Wisc. Center Revenue Bond - Public Improvements .....    | 0.000  | 12/15/2012 | 1,127,500   |
| 1,325,000  | Wisc. Center Revenue Bond - Public Improvements .....    | 0.000  | 12/15/2015 | 443,875     |
| 3,395,000  | Wisc. Center Revenue Bond - Public Improvements .....    | 0.000  | 12/15/2013 | 1,285,856   |
| 155,000    | Wisc. Center Revenue Bond - Public Improvements .....    | 5.400  | 12/15/2013 | 150,738     |
| 2,000,000  | Wisc. Center Revenue Bond - Public Improvements .....    | 5.550  | 12/15/2015 | 1,965,000   |
| 850,000    | Wisc. Center Revenue Bond - Public Improvements .....    | 5.550  | 12/15/2016 | 835,125     |
| 11,150,000 | Wisc. Center Revenue Bond - Public Improvements .....    | 5.700  | 12/15/2020 | 11,080,312  |
| 15,000     | WHEDA - Home Ownership .....                             | 7.375  | 09/01/2017 | 15,431      |
| 120,000    | WHEDA - Home Ownership .....                             | 0.000  | 12/01/2007 | 41,700      |
| 365,000    | WHEDA - Home Ownership .....                             | 6.100  | 06/01/2021 | 385,531     |
| 60,000     | Wittenberg, WI HA Multifamily - Forest Park .....        | 7.200  | 06/20/2030 | 61,125      |
|            |  |        |            | 105,577,131 |
|            | PUERTO RICO - 6.6%                                       |        |            |             |
| 420,000    | Puerto Rico Commonwealth - Public Improvement .....      | 5.500  | 07/01/2013 | 410,550     |
| 400,000    | Puerto Rico Commonwealth - Public Improvement .....      | 5.850  | 07/01/2011 | 407,000     |
| 635,000    | Puerto Rico Commonwealth Hwy./Transportation .....       | 6.375  | 07/01/2008 | 677,069     |
| 1,205,000  | Puerto Rico Commonwealth Hwy./Transportation .....       | 5.500  | 07/01/2017 | 1,168,850   |
| 2,915,000  | Puerto Rico Commonwealth Hwy./Transportation .....       | 5.750  | 07/01/2018 | 2,911,356   |
| 990,000    | Puerto Rico Electric Power Authority - Series O .....    | 0.000  | 07/01/2017 | 303,188     |
| 280,000    | Puerto Rico Electric Power Authority - Series P .....    | 7.000  | 07/01/2021 | 314,650     |
| 135,000    | Puerto Rico Housing Finance Corporation - Multifamily .. | 7.500  | 10/01/2015 | 141,919     |
| 250,000    | Puerto Rico Industrial, Medical & Environmental Auth. .. | 6.000  | 06/01/2000 | 259,375     |
| 1,625,000  | Puerto Rico Municipal Finance Agency - Series A .....    | 5.875  | 07/01/2007 | 1,671,719   |



|           |  |        |            |  |               |
|-----------|--|--------|------------|--|---------------|
|           |  |        |            |  | 8,265,676     |
|           |  |        |            |  | -----         |
|           | GOVERNMENT OF GUAM - 7.7%                                |        |            |  |               |
| 3,400,000 | Guam Power Authority - Series A .....                    | 6.300  | 10/01/2012 |  | 3,472,250     |
| 250,000   | Guam Power Authority - Series A .....                    | 7.100  | 11/15/2009 |  | 263,125       |
| 250,000   | Guam Power Authority - Series A .....                    | 5.250  | 10/01/2013 |  | 229,688       |
| 1,000,000 | Guam Power Authority - Series A .....                    | 6.400  | 10/01/2005 |  | 1,048,750     |
| 1,000,000 | Guam Power Authority - Series A .....                    | 5.250  | 10/01/2023 |  | 891,250       |
| 1,000,000 | Guam Government G.O. - Series A .....                    | 5.375  | 11/15/2013 |  | 931,250       |
| 3,000,000 | Guam Government G.O. - Series A .....                    | 5.400  | 11/15/2018 |  | 2,771,250     |
|           |  |        |            |  | -----         |
|           |  |        |            |  | 9,607,563     |
|           |  |        |            |  | -----         |
|           | NEW PUBLIC HOUSING AUTHORITIES - 0.0%                    |        |            |  |               |
| 35,000    | Burleigh County, ND - New Public Housing Authority ..... | 4.875  | 01/01/2011 |  | 33,555        |
|           |  |        |            |  | -----         |
|           |  |        |            |  | 33,555        |
|           |  |        |            |  | -----         |
|           | TOTAL INVESTMENTS (Cost \$121,953,207) ...               | 99.1%  |            |  | \$123,483,925 |
|           | Cash and receivables, less liabilities ..                | .9%    |            |  | 1,060,838     |
|           |  |        |            |  | -----         |
|           | TOTAL NET ASSETS .....                                   | 100.0% |            |  | \$124,544,763 |
|           |  |        |            |  | =====         |

</TABLE>

The accompanying Notes to Financial Statements are an integral part of this Schedule.

11

HEARTLAND WISCONSIN TAX FREE FUND  
STATEMENT OF ASSETS AND LIABILITIES  
December 31, 1996

<TABLE>

|  |                |
|--|----------------|
| <S>  | <C>            |
| ASSETS:  |                |
| Investments in securities, at value (Cost \$121,953,207) .....                       | \$ 123,483,925 |
| Accrued interest .....   | 1,610,771      |
| Deferred organization expense .....  | 1,517          |
|  | -----          |
| Total Assets .....   | 125,096,213    |
|  | -----          |
| LIABILITIES:   |                |
| Payable for fund shares redeemed .....   | 28,703         |
| Payable to custodian .....   | 428,568        |
| Payable to Advisor for management fee .....  | 68,914         |
| Payable to Advisor for deferred organization expense .....                           | 1,517          |
| Accrued expenses .....   | 23,748         |
|  | -----          |
| Total Liabilities .....  | 551,450        |
|  | -----          |
| NET ASSETS APPLICABLE TO OUTSTANDING SHARES  |                |
| (\$ .001 par value, 100,000,000 shares authorized, 12,257,701 shares outstanding) .. | \$ 124,544,763 |
|  | =====          |
| NET ASSET VALUE PER SHARE .....  | \$ 10.16       |
|  | =====          |

</TABLE>

STATEMENT OF OPERATIONS  
For the year ended December 31, 1996

<TABLE>

|                               |              |
|-------------------------------|--------------|
| <S>                           | <C>          |
| INVESTMENT INCOME:            |              |
| Interest .....                | \$ 7,163,550 |
|                               | -----        |
| Total investment income ..... | 7,163,550    |
|                               | -----        |

|  |              |
|--|--------------|
| EXPENSES:  |              |
| Management fees .....  | 789,698      |
| Transfer agent fees.....                                     | 91,476       |
| Custodian fees.....  | 15,783       |
| Postage.....   | 15,117       |
| Audit fees.....  | 12,751       |
| Legal fees .....   | 8,981        |
| Printing and communications .....                            | 5,790        |
| Directors' fees .....  | 4,326        |
| Registration fees .....                                      | 3,400        |
| Amortization of organization expense .....                   | 3,033        |
| Other operating expenses .....                               | 29,905       |
|  | -----        |
| Total expenses .....   | 980,260      |
| Less: Fees paid indirectly .....                             | (15,783)     |
|  | -----        |
| Net expenses .....   | 964,477      |
|  | -----        |
| NET INVESTMENT INCOME .....                                  | 6,199,073    |
|  | -----        |
| REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS:       |              |
| Net realized gains on:                                       |              |
| Securities.....  | 252,287      |
| Futures contracts .....                                      | 118,461      |
| Net increase in unrealized depreciation on investments ..... | (1,867,241)  |
|  | -----        |
| TOTAL REALIZED AND UNREALIZED LOSSES ON INVESTMENTS .....    | (1,496,493)  |
|  | -----        |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS .....   | \$ 4,702,580 |
|  | =====        |

</TABLE>

The accompanying Notes to Financial Statements are an integral part of these Statements.

HEARTLAND WISCONSIN TAX FREE FUND  
STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>  
<CAPTION>

|  | FOR THE YEAR ENDED DEC. 31, |               |
|--|-----------------------------|---------------|
|  | 1996                        | 1995          |
|  | -----                       | -----         |
| <S>  | <C>                         | <C>           |
| OPERATIONS:  |                             |               |
| Net investment income .....  | \$ 6,199,073                | \$ 5,840,227  |
| Net realized gains (losses) on investments .....   | 370,748                     | (526,526)     |
| Net increase in unrealized appreciation (depreciation) on investments for the year .....         | (1,867,241)                 | 12,775,102    |
|  | -----                       | -----         |
| Net increase in net assets resulting from operations .....                                       | 4,702,580                   | 18,088,803    |
|  | -----                       | -----         |
| DISTRIBUTIONS TO SHAREHOLDERS FROM:  |                             |               |
| Net investment income .....  | (6,199,073)                 | (5,840,227)   |
|  | -----                       | -----         |
| Total distributions to shareholders .....  | (6,199,073)                 | (5,840,227)   |
|  | -----                       | -----         |
| FUND SHARE ACTIVITIES:   |                             |               |
| Proceeds from shares issued (2,158,376 and 1,676,647 shares, respectively) .....                 | 21,604,140                  | 16,460,562    |
| Reinvested dividends from net investment income (434,964 and 407,053 shares, respectively) ..... | 4,374,986                   | 4,034,053     |
| Cost of shares redeemed (1,840,299 and 1,621,142 shares, respectively) .....                     | (18,450,990)                | (15,978,889)  |
|  | -----                       | -----         |
| Net increase in net assets derived from Fund share activities ..                                 | 7,528,136                   | 4,515,726     |
|  | -----                       | -----         |
| TOTAL INCREASE IN NET ASSETS .....   | 6,031,643                   | 16,764,302    |
| NET ASSETS AT THE BEGINNING OF THE YEAR .....  | 118,513,120                 | 101,748,818   |
|  | -----                       | -----         |
| NET ASSETS AT THE END OF THE YEAR .....  | \$124,544,763               | \$118,513,120 |
|  | =====                       | =====         |

</TABLE>

FINANCIAL HIGHLIGHTS

<TABLE>  
<CAPTION>

|  | FOR THE YEAR ENDED DECEMBER 31, |           |           | APRIL 3, 1992 (1) |                          |
|--|---------------------------------|-----------|-----------|-------------------|--------------------------|
|  | 1996                            | 1995      | 1994      | 1993              | THROUGH<br>Dec. 31, 1992 |
| <S>  | <C>                             | <C>       | <C>       | <C>               | <C>                      |
| <b>SELECTED PER SHARE DATA</b>                               |                                 |           |           |                   |                          |
| Net asset value, beginning of period .....                   | \$10.30                         | \$ 9.21   | \$10.38   | \$9.85            | \$9.70                   |
| Income from investment operations:                           |                                 |           |           |                   |                          |
| Net investment income .....                                  | .51                             | .51       | .51       | .49               | .37                      |
| Net realized and unrealized gains (losses) on investments .. | (.14)                           | 1.09      | (1.17)    | .55               | .15                      |
| Total income from investment operations .....                | .37                             | 1.60      | (.66)     | 1.04              | .52                      |
| Less distributions from:                                     |                                 |           |           |                   |                          |
| Net investment income .....                                  | (.51)                           | (.51)     | (.51)     | (.49)             | (.37)                    |
| Net realized gains on investments .....                      | --                              | --        | --        | (.02)             | --                       |
| Total distributions .....                                    | (.51)                           | (.51)     | (.51)     | (.51)             | (.37)                    |
| Net asset value, end of period .....                         | \$10.16                         | \$ 10.30  | \$9.21    | \$10.38           | \$9.85                   |
| TOTAL RETURN (2) .....                                       | 3.8%                            | 17.8%     | (6.5)%    | 10.8%             | 7.3% (3)                 |
| <b>RATIO AND SUPPLEMENTAL DATA</b>                           |                                 |           |           |                   |                          |
| Net assets, end of period (in thousands) .....               | \$124,545                       | \$118,513 | \$101,749 | \$99,350          | \$36,304                 |
| Ratio of net expenses to average net assets .....            | 0.80% (4)                       | 0.84%     | 0.85 %    | 0.84%             | 0.82% (3)                |
| Ratio of net investment income to average net assets .....   | 5.12%                           | 5.23%     | 5.28 %    | 4.81%             | 4.87% (3)                |
| Portfolio turnover rate .....                                | 14%                             | 11%       | 22 %      | 6%                | 7%                       |

</TABLE>

- (1) Commencement of operations.  
(2) The front-end sales charge in effect for the Fund prior to June 1, 1994 is not reflected in Total Return as set forth in the table.  
(3) Annualized.  
(4) The ratio does not include "fees paid indirectly," described in Note 2(f) in Notes to Financial Statements. If the Fund did not have fees paid indirectly, the expense ratio would have been 0.81% for 1996. Disclosure of fees paid indirectly was not required prior to December 31, 1995.

The accompanying Notes to Financial Statements are an integral part of these Statements.

HEARTLAND WISCONSIN TAX FREE FUND  
NOTES TO FINANCIAL STATEMENTS - December 31, 1996

(1) ORGANIZATION

The Heartland Group, Inc. (the "Corporation") is registered as a diversified open-end management company under the Investment Company Act of 1940. The Wisconsin Tax Free Fund (the "Fund") is one of the seven series of funds issued by the Corporation as of December 31, 1996. Two additional series commenced operations on January 2, 1997.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed by the Fund in the preparation of the financial statements:

- (a) Debt securities are stated at fair value as furnished by independent pricing services based primarily upon information concerning market transactions and dealer quotations for similar securities or by dealers who make markets in such securities. Debt securities having maturities of 60 days or less may be valued at acquisition cost, plus or minus any amortized discount or premium. Securities and other assets for which quotations are not readily available are valued at their fair value using methods determined by the Board of Directors.
- (b) The Fund's policy is to comply with the requirements of the Internal Revenue Code which are applicable to regulated investment companies and to distribute substantially all of its taxable income to their shareholders. The Fund accordingly paid no Federal income taxes, and no Federal income tax provision is required.

At December 31, 1996, the Fund has a Federal income tax capital loss carry forward of \$8,153 expiring in 2002 and \$526,525 expiring in 2003. During the year ended December 31, 1996, \$370,748 of capital loss carry

forward was utilized by the Fund. The Fund does not intend to make a distribution of any future realized capital gains until its Federal income tax capital loss carry forward is completely utilized.

- (c) Net investment income is distributed to each shareholder as a dividend. Dividends are declared daily and distributed monthly and are recorded by the Fund on the ex-dividend date. Net realized gains on investments, if any, are distributed annually.
- (d) The Fund records security and shareholder transactions no later than the first business day after the trade date. Net realized gains and losses on investments are computed on the identified cost basis. Interest income is recognized on an accrual basis. The Fund amortizes premium and accretes original issue discount on investments utilizing the effective interest method.
- (e) The Fund may enter into futures contracts for hedging purposes, such as to protect against anticipated declines in the market value of its portfolio securities or to manage exposure to changing interest rates. Upon entering into futures contracts, the Fund pledges to the broker securities equal to the minimum "initial margin" requirements of the exchange. Additionally, the Fund receives from or pays to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as "variation margin," and are recorded by the Fund as unrealized gains or losses. When the futures contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The use of futures contracts involves, to varying degrees, elements of market risk in excess of the amount recognized in the Statement of Assets and Liabilities. The predominant risk is that the movement of the futures contracts price may result in a loss which could render a portfolio's hedging strategy unsuccessful. The Fund had no open futures contracts at December 31, 1996.

- (f) The Fund has entered into a fee arrangement with its custodian bank which provides for a reduction in custody fees based upon net amounts of uninvested cash balances. This reduction of expenses is shown on the Statement of Operations as "Fees Paid Indirectly."
- (g) 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

- (3) INVESTMENT MANAGEMENT FEES AND TRANSACTIONS WITH RELATED PARTIES  
The Fund has a management agreement with Heartland Advisors, Inc. (the "Advisor") to serve as investment advisor and manager. Under the terms of the agreement, the Fund pays the Advisor a monthly management fee at the annual rate of .65% of the daily net asset value of the Fund.

Officers and certain directors of the Fund are also officers and/or directors of Heartland Advisors, Inc.; however, they receive no compensation from the Funds.

As permitted under Rule 10f-3 of the Investment Company Act of 1940, the Board of Directors of the Funds has adopted a plan which will allow the Fund, under certain conditions described in the Rule, to acquire newly-issued securities from syndicates in which the Distributor is a member.

- (4) DEFERRED ORGANIZATION EXPENSES  
Organization expenses have been deferred and are being amortized on a straight-line basis over sixty months. Payments for these expenses were advanced by the Advisor, who will be reimbursed by the Fund over the same period. The proceeds of any redemption of the initial shares by the original shareholders will be reduced by a pro-rata portion of any then unamortized expenses. Unamortized deferred organization expenses and the related payable to the Advisor at December 31, 1996, were \$1,517.
- (5) INVESTMENT TRANSACTIONS  
During the year ended December 31, 1996, purchases and sales of securities, other than short-term securities, were \$24,179,084 and \$16,317,224,

respectively.

At December 31, 1996, the gross unrealized appreciation and depreciation on investments were \$2,509,425 and \$978,707, respectively, netting to \$1,530,718.

Cost of investments is the same for financial reporting purposes and federal income tax purposes.

(6) SOURCES OF NET ASSETS

At December 31, 1996, the Funds sources of net assets were as follows:

|   |               |
|---|---------------|
| Paid-in capital .....                               | \$123,548,723 |
| Net unrealized appreciation on investments .....    | 1,530,718     |
| Accumulated net realized losses on investments .... | (534,678)     |
|   | -----         |
|   | \$124,544,763 |
|   | =====         |

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of Heartland Wisconsin Tax Free Fund:

We have audited the accompanying schedule of investments, including the statement of assets and liabilities, of Heartland Wisconsin Tax Free Fund (the "Fund," one of the series comprising Heartland Group, Inc., a Maryland corporation) as of December 31, 1996 and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for the periods presented. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 1996 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 1996, the results of operations for the periods presented, the changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the periods presented in conformity with generally accepted accounting principles.

Milwaukee, Wisconsin  
February 7, 1997

ARTHUR ANDERSEN LLP

VALUE REPORT

Dear Investor

We are here to help you meet your investment needs.

If you have a question, please call Heartland Shareholder Services. We're confident you'll find our representatives to be knowledgeable and responsive.

1-800-432-7856

[Photo of Heartland Shareholder Services Representative]

THE HEARTLAND FAMILY OF FUNDS

SMALL CAP CONTRARIAN FUND

VALUE FUND  
(closed to new investors 7/1/95)

MID CAP VALUE FUND      NEW

LARGE CAP VALUE FUND      NEW

VALUE PLUS FUND

U.S. GOVERNMENT SECURITIES FUND

WISCONSIN TAX FREE FUND

SHORT DURATION HIGH-YIELD  
MUNICIPAL FUND              NEW

HIGH-YIELD MUNICIPAL  
BOND FUND                      NEW

PORTICO MONEY MARKET FUND

[Logo] Heartland Funds  
-----  
AMERICA'S VALUE INVESTOR

1-800-432-7856

These are not recommendations to buy or sell the securities discussed, but rather illustrations of our value investment strategy. Statements regarding particular securities represent the portfolio manager's views when made and are subject to change at any time based on market and other considerations.

The performance data quoted represents past performance. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

This material may only be used when preceded or accompanied by the Fund's prospectus. Heartland Advisors, Inc., distributor. Member SIPC/NASD.

[Logo] Heartland Funds  
-----  
AMERICA'S VALUE INVESTOR

VALUE REPORT

December 31, 1996

NOTES ON VALUE INVESTING  
FOR INVESTORS IN  
HEARTLAND FUNDS

ANNUAL REPORT  
TO SHAREHOLDERS

Dear Investor

[Photo of Bill Nasgovitz]

We just finished the sixth year in a row -- an all-time record -- that the S&P 500 Index has finished higher. This juggernaut, plus the extent and intensity of the market's rise, lead us to embrace Federal Reserve Chairman Greenspan's warning of "irrational exuberance."

They also impel me to repeat our mantra of tempered expectations. This has been a growth investor's stock market...momentum driven and rife with speculation. When the tide turns -- and in our view it will -- we believe value investing will make more sense than ever.

Not that it didn't make sense in '96. As you'll see in this Report, we did very well indeed.

Value, in other words, never goes out of style. Which is one reason we weren't reluctant to introduce two new equity funds last quarter -- Heartland Mid Cap Value Fund and Large Cap Value Fund. We're pleased to present their performance summary and financial information, along with that of our other value-based Funds.

With "rational prudence," we look forward to 1997, and we thank you for your continued confidence in Heartland.

Sincerely,

William J. Nasgovitz  
President

February 1997

19

VALUE REPORT

#### WHY HEARTLAND FUNDS IS AMERICA'S VALUE INVESTOR

- We are fully committed to the concept of value-based investing in the belief that, over time, it will produce higher returns with lower risk for our investors.
- While many fund families offer a value-based product, every fund in the Heartland Family is managed according to strict value criteria. You can find these criteria explained in the Funds' prospectuses.
- Our value discipline focuses our thinking, guides our research and frames our decision-making. We believe it has proven its merit under all market conditions.
- Research is essential to us. Along with research on individual securities, we are heavily engaged in research on value investing itself. We are determined to explore and define the frontiers of this body of knowledge, and to share our findings through ongoing publication.
- Given our experience and the nature of securities markets, we believe that value-based investments should serve as the foundation for every investor's portfolio.

1

20

#### VALUE REPORT

##### HEARTLAND SMALL CAP CONTRARIAN FUND

##### A RUN FOR YOUR MONEY

Though it sounds redundant and a bit pretentious, a company's "net net working capital" -- current assets minus all debt -- is an important value concept for stock selection.

It was a major reason we purchased stock in HYDE ATHLETIC INDUSTRIES, INC. Although best known for its Saucony running shoes, Hyde is building a niche in performance-enhancing products for serious athletes, including triathletes.

This was the strategy behind its recent acquisitions of Quintana Roo mountain bikes and Hind Sportswear.

While Hyde has been steadily gaining market share and has doubled its sales in the past five years, its profitability hasn't kept pace. When we started buying the stock at \$5 in May '96, it was at 20X estimated '96 earnings. Not exactly a bargain. But this very conservatively managed company had a tangible net worth of \$7.74 per share, only 10% debt, and -- most important -- was trading at only 80% of its net net working capital of \$6.57. At our \$5 stock price, we were getting, in essence, all fixed assets -- plant, equipment, land, patents, trademarks -- for free.

Based on our projections for improving margins, continued strength in the Saucony line, and successful integration of its acquisitions, we believe Hyde's earnings could take off in '97, thus attracting buyers for its stock.

On 12-31-96, the Fund owned 525,000 shares of Hyde Athletic Industries, Inc. Class B common stock. At its price of \$5.13, this stock represented 1.0% of the Fund's net assets.

2

21

VALUE REPORT

HEARTLAND SMALL CAP CONTRARIAN FUND

OBJECTIVE

The Heartland Small Cap Contrarian Fund pursues maximum long-term appreciation through an aggressive investment strategy with small company stocks. It seeks to take advantage of both undervalued and overvalued stocks, as well as both rising and declining markets.

AVERAGE ANNUAL RETURNS

|                                     | 1-year | Since inception<br>4/27/95 |
|-------------------------------------|--------|----------------------------|
| Heartland Small Cap Contrarian Fund | 18.9%  | 24.0%                      |
| Russell 2000                        | 16.5   | 22.7                       |

The Russell 2000 Index is an unmanaged index of stocks considered to be representative of the small cap market in general.

GENERAL INFORMATION

| <TABLE><br><CAPTION><br><S> | <C>        | <C>                        |
|-----------------------------|------------|----------------------------|
| Net assets .....            | \$ 263 mil | Median market cap .....    |
| Share price .....           | \$13.40    | P/E ratio ('97 est.) ..... |
| Number of holdings          |            |                            |
| Long positions .....        | 118        | Growth of \$10,000 since   |
| Short positions .....       | 12         | inception on 4/27/95 ..... |

TOP 10 HOLDINGS

|                                  |      |  |      |
|----------------------------------|------|--|------|
| ICN Pharmaceuticals, Inc. ....   | 3.4% | Orthologic Corporation .....           | 2.1% |
| London Pacific Group Ltd. ....   | 2.9  | Cabot Oil & Gas Corporation .....      | 2.0  |
| Equity Inns Inc. ....            | 2.5  | Shiloh Industries, Inc. ....           | 1.9  |
| Charter Power Systems, Inc. .... | 2.3  | Tipperary Corporation .....            | 1.8  |
| Campbell Resources, Inc. ....    | 2.1  | Interdigital Communications Corp. .... | 1.7  |

PORTFOLIO COMPOSITON

[graphic - A pie chart displays categories of the Heartland Small Cap Contrarian Fund's portfolio as of 12/31/96: small cap stocks at 88.2%; short positions at 6.9%; cash & equivalents at 4.9%]



\* Assumes reinvestment of all dividends and capital gains distributions

VALUE REPORT

HEARTLAND SMALL CAP CONTRARIAN FUND

MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE

Heartland Small Cap Contrarian Fund finished 1996 with a gain of 18.9%. This return compares quite favorably to the 16.5% return of the Russell 2000 Index, the Fund's benchmark.

The Fund, however, achieved its performance erratically...a gain of 18.3% through June versus a second half return of 0.5%. The sharp decline in small cap stocks that started in the late second quarter was worst among the smallest of the small caps. With its median cap of only \$50 million, the Fund felt the heat.

Another negative was the Fund's large holdings in healthcare. Throughout '96, this was the worst performing sector among small caps, and took a particular beating in the second half. An example is our largest holding, ICN Pharmaceuticals, Inc., an international manufacturer and distributor of pharmaceuticals. Following a high of \$28 in May, it declined steeply, bottoming at \$17.62 in October. Yet ICN's fundamentals remained very strong, and we estimate the company should earn \$2.75 per share in '97.

ICN was not alone as a victim of uncertainty in this new age of managed care. But we suspect the market has overreacted, and that our healthcare stocks will rebound in '97. In fact, we believe investors will "rediscover" small caps in general, as small company profits continue to rise and large caps start to fall short of the growth expectations inherent in their stock prices.

[line chart illustrating performance of an assumed investment of \$10,000 in the Heartland Small Cap Contrarian Fund and the Russell 2000 Index beginning on April 27, 1995 as follows:

|          | Heartland<br>Small Cap<br>Contrarian<br>Fund | Russell<br>2000 |
|----------|--|-----------------|
| 9/30/95  | \$11,690                                     | \$11,846        |
| 12/31/95 | \$12,083                                     | \$12,103        |
| 6/30/96  | \$14,296                                     | \$13,356        |
| 12/31/96 | \$14,362                                     | \$14,098        |

Legend in graph states that Past Performance is not predictive of future results.

A box below the graph states Average Annual Total Returns as of 12/31/96 as follows:

|                 |       |
|-----------------|-------|
| 1-year          | 18.9% |
| since inception | 24.0% |

Lastly, our short positions hurt performance, but we are fully confident that our ability to short stocks will benefit our investors in the long term. However, the general strategy of shorting in the midst of a raging bull market is likely to produce some short-term losses.

Nevertheless, we are pleased with the Fund's results, and believe that our dual strategy of buying small cap value for potential appreciation and selling short overpriced growth issues will continue to reward our investors.

## MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE

The equity markets enjoyed another outstanding year in 1996, with all of the major indices posting returns well above their historical norms. And once again, the Heartland Value Fund produced returns superior to those of its benchmark, the small-cap Russell 2000 Index.

In an earnings-driven market that was dominated by large-cap stocks, we attribute our continued success to our strategy of seeking out-of-favor, undervalued small-cap stocks. While '96 was the third straight year that small-cap stocks underperformed large caps, it made our strong performance especially gratifying.

In large part, we attribute our 21% return in '96 to our assessment in late '95 that small cap energy stocks were especially undervalued. We more than doubled our holdings in the energy sector during '96 -- from 4.1% of net assets in January to 9.9% at year end. This sector was by far our best performer, thanks in no small measure to Cliffs Drilling Company and Clayton Williams Energy, Inc., which more than quadrupled in value during '96.

As we look ahead, we are still bullish on energy for the long-term. Right now, however, we are looking for sectors that investors have beaten down. In the environmental sector, for example, we have found a number of stocks that are selling at book value and have strong balance sheets. We also expect some healthcare stocks -- including current holdings such as ICN

[line chart illustrating performance of an assumed investment of \$10,000 in the Heartland Value Fund and the Russell 2000 Index beginning on December 28, 1984 as follows:

|          | Heartland<br>Value Fund | Russell<br>2000 |
|----------|-------------------------|-----------------|
| 12/31/85 | \$14,094                | \$13,219        |
| 12/31/86 | \$15,637                | \$13,970        |
| 12/31/87 | \$14,318                | \$12,745        |
| 12/31/88 | \$18,190                | \$15,918        |
| 12/31/89 | \$19,385                | \$18,503        |
| 12/31/90 | \$16,072                | \$14,892        |
| 12/31/91 | \$24,005                | \$21,751        |
| 12/31/92 | \$34,201                | \$25,756        |
| 12/31/93 | \$40,620                | \$30,625        |
| 12/31/94 | \$41,316                | \$30,069        |
| 12/31/95 | \$53,629                | \$38,621        |
| 12/31/96 | \$64,885                | \$44,990        |

Legend in graph states that Past Performance is not predictive of future results.

A box below the graph states Average Annual Total Returns as of 12/31/96 as follows:

|                 |       |
|-----------------|-------|
| 1-year          | 21.0% |
| 5-year          | 22.0% |
| 10-year         | 15.3% |
| since inception | 16.9% |

Pharmaceuticals, Inc. and RightChoice Managed Care, Inc. -- to rebound after lagging the market in '96.

As always, we will continue to focus on stocks that meet our value criteria. Although a setback in equity prices appears overdue, we believe investors should maintain a commitment to the dynamic small cap sector, which we believe is poised to produce solid returns over the next few years. We are proud of the Value Fund's long-term record and will endeavor to continue to reward your trust and confidence.

## VALUE REPORT

## HEARTLAND VALUE FUND

## IT'S A WRAP

All kinds of events can create opportunities for value investors. One of them is a streak of bad news. It was this that attracted us to GIBSON GREETINGS,

INC., the nation's third largest greeting card company, after Hallmark and American Greetings.

Starting in '94, Gibson was hit with a series of problems. An unsuccessful acquisition -- a giftwrap company -- resulted in major write-downs and losses. Poor investments in derivative securities also produced multimillion-dollar losses. Then the company fired its president. These problems -- all too visible in the financial press -- prompted analysts and institutions to abandon the stock, causing its price to drop from \$24 in '94 to \$8 in early '95.

At that time, we aggressively accumulated Gibson shares, acquiring 1.2 million at an average cost below \$10. Although a wallflower, Gibson offered features we found attractive: a book value of \$16, sales per share of \$30, and a decent balance sheet. The company was also taking aggressive actions that we liked. It had cut losses by selling its giftwrap acquisition, was paying down debt, had hired a new CEO and CFO, and redefined its marketing strategy.

These changes are clearly having a positive effect. After a disastrous 1995, Gibson is forecasted to report \$1.35 per share in '96 earnings, and \$1.60 in '97. As a result, the stock has nearly doubled from our average cost.

On 12-31-96, the Fund owned 1,000,000 shares of Gibson Greetings, Inc., almost 7.5% of the company. At its price of \$19.63, Gibson represented 1.2% of the Fund's net assets.

VALUE REPORT

HEARTLAND VALUE FUND

OBJECTIVE

The Heartland Value Fund seeks capital appreciation through small company stocks selected on a value basis. (Closed to new investors since 7/1/95.)

AVERAGE ANNUAL RETURNS

|                      | 1-year | 5-year | 10-year | Since inception<br>12/28/84 |
|----------------------|--------|--------|---------|-----------------------------|
|                      | -----  | -----  | -----   | -----                       |
| Heartland Value Fund | 21.0%  | 22.0%  | 15.3%   | 16.9%                       |
| Russell 2000         | 16.5   | 15.6   | 12.4    | 13.3                        |

The Russell 2000 Index is an unmanaged index of stocks considered to be representative of the small cap market in general.

GENERAL INFORMATION

<TABLE>

| <S>                     | <C>       | <C>                        | <C>       |
|-------------------------|-----------|----------------------------|-----------|
| Net assets.....         | \$ 1.6BIL | P/E ratio ('97 est.).....  | 15.2X     |
| Share price.....        | \$ 31.65  |                            |           |
| Number of holdings..... | 267       | Growth of \$10,000 since   |           |
| Median market cap.....  | \$ 86MIL  | inception on 12/28/84..... | \$64,885* |

TOP 10 STOCK HOLDINGS

|   |      |                                    |      |
|---|------|------------------------------------|------|
| ICN Pharmaceuticals, Inc.....           | 3.8% | Gibson Greetings, Inc.....         | 1.2% |
| Forest Oil Corporation.....             | 1.7  | Tesoro Petroleum Corporation.....  | 1.2  |
| Maxicare Health Plans, Inc.....         | 1.6  | Allwaste, Inc.....                 | 1.2  |
| Transitional Hospitals Corporation..... | 1.4  | First Financial Corporation.....   | 1.2  |
| Presidential Life Corporation.....      | 1.3  | John Alden Financial Corporation.. | 1.2  |

</TABLE>

PORTFOLIO COMPOSITION

[graphic - A pie chart displays categories of the Heartland Value Fund's portfolio as of 12/31/96: health care services at 11.5%; energy/natural resources at 9.9%; insurance at 8.4%; manufacturing at 8.3%; banks and S&Ls at 7.4%; retail at 5.5% financial services at 4.5%; other at 44.5%]

All statistics are as of December 31, 1996.

\* Assumes reinvestment of all dividends and capital gains distributions

## VALUE REPORT

## HEARTLAND MID CAP VALUE FUND

## A BUMPER CROP OF VALUE

Classic mid-cap value stocks tend to be somewhat unknown and in unexciting industries. Take AGCO CORPORATION, for example. It manufactures and markets agricultural equipment -- tractors, combines, hayers and the like -- hardly the high-tech stuff that headlines are made of.

Nonetheless, AGCO is a \$1.4 billion company with capable, acquisition-minded management, 7,000 worldwide distributors, and brand names -- Massey Ferguson, Gleaner, Heston, White -- that read like a Who's Who of agriculture. It also has an outstanding competitive position, particularly in higher-growth overseas markets. It derives nearly half its revenues from Europe, and controls nearly 40% and 50% of its markets in Brazil and Argentina, respectively. In addition, AGCO finds itself at a favorable point in the agricultural cycle. High commodity prices, little fallow land, pent-up demand for crops and worldwide government subsidies point to a strong continuing need for equipment.

Yet despite this alignment of stars, AGCO's stock was a bargain when we bought it in October. Its trailing P/E was only 10.4 versus 13 for competitors Case and Deere, and its 24% return on equity was well above the industry average. In addition, AGCO's earnings were rising, and its debt was being paid down. We also liked the fact that management owned 13% of the stock and that the Chairman, who already owned 310,000 shares, was purchasing additional shares in the open market.

On 12-31-96, the Fund owned 7,000 shares of AGCO Corporation at an average cost of \$26.32. At its price of \$28.63, this holding represented 2.9% of the Fund's net assets.

## VALUE REPORT

## HEARTLAND MID CAP VALUE FUND

## OBJECTIVE

This Fund pursues long-term capital appreciation. Using intensive research and Heartland's value criteria, it seeks undervalued opportunities among companies with stock market capitalizations between \$500 million and \$2.5 billion.

## TOTAL RETURNS (from 10-11-96 through 12-31-96)

Mid Cap Value Fund.....6.6% S&P Mid-Cap Index.....5.6%

## GENERAL INFORMATION

Net assets.....\$6.9 MIL P/E ratio ('97 est.).....11.7X  
 Share price.....\$10.66  
 Number of holdings.....64 Growth of \$10,000 since  
 Median market cap.....\$1.3 BIL inception on 10/11/96.....\$10,660

## COMPARATIVE VALUATIONS\*

|                        | Heartland<br>Mid Cap<br>Value | S&P<br>Mid-Cap<br>Index |
|------------------------|-------------------------------|-------------------------|
| Price/Earnings Ratio** | 12.9                          | 19.7                    |
| Price/Cash Flow        | 6.5                           | 11.7                    |
| Price/Book Value       | 1.6                           | 3.1                     |
| Price/Sales            | 0.5                           | 1.3                     |

## TOP 10 HOLDINGS

HealthPlan Services Corp. ....3.1% Mid Ocean Ltd. ....2.3%  
 AGCO Corporation.....2.9 Wellpoint Health Networks, Inc....2.2  
 Lehman Brothers Holdings, Inc. ....2.7 Oklahoma Gas & Electric Co.....2.1

PORTFOLIO COMPOSITION

[graphic - A pie chart displays categories of the Heartland Mid Cap Value Fund's portfolio as of 12/31/96: cash & equivalents at 8.6%; common stocks at 91.4%. Common stocks is further broken down as follows: banks and S&Ls at 12.1%; manufacturing at 11.3%; insurance at 10.4%; health care services at 8.9%; technology at 6.1%; food & beverage at 6.0%; financial services at 5.0%; energy & natural resources at 5.0%; construction/housing at 4.1%; forest products at 3.5%; utilities at 3.5%; consumer products at 3.2%; chemicals at 2.5%; building products at 2.4%; retail at 2.3%; diversified operations at 2.1%; automotive at 1.7% REITs at 0.7%; leisure at 0.6%.]

All statistics are as of December 31, 1996.  
 The S&P Mid-Cap Index is an unmanaged index of 400 stocks generally considered representative of the mid-cap market.  
 \*Source: StockVal. \*\*For the 12 months through 12/31/96.

VALUE REPORT

HEARTLAND MID CAP VALUE FUND

MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE

The Heartland Mid Cap Value Fund is off to a very good start. From its inception on October 11 through year-end 1996, the Fund earned a return of 6.6%. This exceeds the 5.6% return of the S&P Mid-Cap Index, the Fund's benchmark, as well as the 1% return of the Lipper Mid Cap Fund Index.\*

As the accompanying statistics reveal, the Fund's valuations are significantly lower than its benchmark's. This, we believe, represents a margin of safety. Another margin of safety is our much higher dividend growth rate. It indicates that our holdings generate enough free cash flow to raise their dividends substantially.

Despite the general market's incessant rise and high valuations, we managed to find what we considered attractively valued stocks in depressed sectors, particularly banking, insurance, manufacturing and healthcare.

During these eleven short weeks, many of our stocks were stellar performers. Pulte Corporation, for instance, a home builder, rose 14% from our average cost. AGCO Corporation, an agricultural machinery manufacturer, gained 8.8%. And Mid Ocean Ltd. rose 6%. In addition, two of our holdings rose dramatically in response to being acquired. They were PHH Corporation up 31.2%, and Santa Fe Pacific Gold Corporation up 26.8%. It's gratifying -- and profitable -- to be a step ahead of other investors who find value where we do.

[line chart illustrating performance of an assumed investment of \$10,000 in the Heartland Mid Cap Value Fund and the S&P Mid-Cap Index beginning on October 11, 1996 as follows:

|          | Heartland<br>Mid Cap<br>Value Fund | S&P<br>Mid-Cap<br>Index |
|----------|------------------------------------|-------------------------|
| 10/31/96 | \$9,780                            | \$9,988                 |
| 11/30/96 | \$10,400                           | \$10,550                |
| 12/31/96 | \$10,660                           | \$10,562                |

Legend in graph states that Past Performance is not predictive of future results.

A box below the graph states Average Annual Total Returns as of 12/31/96 of 6.6% since inception.]

In 1997, we expect stable to declining interest rates and continued modest earnings growth. In addition, we believe that small and mid-cap stocks will return to favor, reversing the higher valuations that large caps have enjoyed for several years. But because the equity markets can be fickle, value investing requires both prudence and patience. We will thus continue to look not only for significant appreciation potential, but also for wealth protection in the event of a market decline.

\*The Lipper Mid Cap Fund Index is an equally weighted index of the performance of the 30 largest mid cap funds as tracked by Lipper Analytical Services, Inc.

10

29

VALUE REPORT

HEARTLAND LARGE CAP VALUE FUND

MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE

From its October 11 inception to December 31, the Fund appreciated 5.0%. While this was much better than the 1.4% gain of the Lipper Capital Appreciation Fund Index, it was below the 7.1% rise of the S&P 500 Index, the Fund's benchmark.\* We attribute this relative lag to two factors: dramatic gains in the S&P 500 during the first two days of the Fund's life, when we hadn't yet put our limited assets fully to work; and the caution that compelled us to maintain an above-average cash position throughout the quarter.

Our caution reflected our concern over market conditions. After all, the stock market was roaring ahead for the second straight year, and history shows that price corrections have typically followed such a pattern. In defiance of history, however, as well as valuation levels and our own investment strategy, the market -- fueled by the energy and technology sectors -- continued its momentum-driven ascent.

The market also became increasingly volatile, with many days on which the Dow has swung up or down by a percentage point or more. On the down days, the Fund has tended to have its strongest relative performance.

We believe this is consistent with the conservative nature of large cap investing in general. Additionally, we have positioned the Fund to capitalize on value by focusing on companies where expectations are relatively low.

[line chart illustrating performance of an assumed investment of \$10,000 in the Heartland Large Cap Value Fund and the S&P 500 Index beginning on October 11, 1996 as follows:

|          | Heartland<br>Large Cap<br>Value Fund | S&P<br>500 |
|----------|--------------------------------------|------------|
| 10/31/96 | \$9,930                              | \$10,167   |
| 11/30/96 | \$10,470                             | \$10,931   |
| 12/31/96 | \$10,500                             | \$10,714   |

Legend in graph states that Past Performance is not predictive of future results.

A box below the graph states Average Annual Total Returns as of 12/31/96 of 5.0% since inception.]

Conversely, we seek to avoid companies with profit margins reaching bold new heights. Historically, this achievement has stimulated capital spending, which -- within the business cycle -- has all too often led to lower margins. We much prefer companies with depressed margins, and management committed to raising them to normal levels.

\*The Lipper Capital Appreciation Fund Index is an unmanaged index of the 30 largest capital appreciation funds as tracked by Lipper Analytical Services, Inc.

11

30

VALUE REPORT

HEARTLAND LARGE CAP VALUE FUND

ONE BIG ELF

In October, at the Fund's inception, the energy sector had already roared ahead in '96, fueled by higher prices for oil and gas. Our challenge: to participate in this key area while adhering to our value principles.

Our answer was to look overseas, where misperceptions had created opportunities. Of particular interest to us was ELF AQUITANE, based in France. Though hardly a household name in the U.S., Elf Aquitane is the size of Texaco, and one of the world's largest integrated oil companies.

Like many foreign oil companies, Elf had been government-owned, and had thus gained the reputation of being run to increase employment rather than profit. But a phased-in privatization -- due for completion in '96 -- had altered the facts.

A new management team, which is clearly profit-oriented, has a 5-year plan in place and has started to unburden the company of people and bureaucracy. We regard this process as a built-in earnings improvement: it will inevitably continue to expand margins, which are still only about half the industry average. By contrast, the company has above-average proven reserves, and is engaged in what we think are very exciting joint ventures in Africa, South America and the Caspian Sea. Because of these positive factors, plus its low valuations at purchase, we regard Elf as a superior risk/return opportunity.

On 12-31-96, the Fund owned 1,200 ADR units of Elf Aquitane valued at \$54,300, or 2.2% of net assets. The ADRs had increased to \$45.25 from their average cost of \$40.65.

12

31

VALUE REPORT

HEARTLAND LARGE CAP VALUE FUND

OBJECTIVE

This Fund pursues long-term capital appreciation and is our most conservative equity offering. Using Heartland's value-investing criteria, it seeks undervalued opportunities among companies with stock-market capitalizations of over \$1 billion.

TOTAL RETURNS (from 10-11-96 through 12-31-96)

|                                |                         |
|--------------------------------|-------------------------|
| <TABLE>                        |                         |
| <S>                            | <C>                     |
| Large Cap Value Fund..... 5.0% | S&P 500 Index..... 7.1% |

GENERAL INFORMATION

|                                   |                                     |
|-----------------------------------|-------------------------------------|
| Net assets..... \$2.4 MIL         | P/E ratio ('97 est.)..... 12.3X     |
| Share price..... \$10.50          |                                     |
| Number of holdings..... 45        | Growth of \$10,000 since            |
| Median market cap..... \$4.8 BILL | inception on 10/11/96..... \$10,500 |

</TABLE>

COMPARATIVE VALUATIONS\*

|                        | Heartland<br>Large Cap<br>Value | S&P<br>Index |
|------------------------|---------------------------------|--------------|
| Price/Earnings Ratio** | 14.1                            | 20.6(1)      |
| Price/Cash Flow        | 5.1                             | 12.3(2)      |
| Price/Book Value       | 1.6                             | 4.3(1)       |
| Price/Sales            | 0.7                             | 1.2(2)       |

TOP 10 HOLDINGS

|                                     |                                       |
|-------------------------------------|---------------------------------------|
| <TABLE>                             |                                       |
| <S>                                 | <C>                                   |
| Tenet Healthcare Corporation.. 3.2% | Beverly Enterprises ..... 2.9%        |
| Fort Howard Corporation..... 3.2    | YPF Sociedad Anonima (ADR)..... 2.7   |
| Student Loan Marketing Assoc.. 3.1  | K Mart Corporation..... 2.6           |
| Consolidated Natural Gas Co... 2.9  | AT&T Corporation..... 2.5             |
| Shaw Industries, Inc..... 2.9       | Allmerica Financial Corporation.. 2.5 |

</TABLE>

PORTFOLIO COMPOSITION

[graphic - A pie chart displays categories of the Heartland Large Cap Value Fund's portfolio as of 12/31/96: cash & equivalents at 16.3%; common stocks at

83.7%. Common stocks is further broken down as follows: insurance at 11.9%; utilities at 9.7%; health care services at 8.1%; paper products at 7.6%; tobacco at 6.5%; banks and S&Ls at 5.3%; energy & natural resources at 4.9%; food & beverage at 4.6%; communications at 4.5%; financial services at 4.1%; retail at 3.4%; home furnishings at 2.9%; manufacturing at 2.8%; electrical & electronics at 2.0%; technology at 1.5%; construction/housing at 1.4%; air freight at 1.3%; diversified operations at 1.2%.]

All statistics are as of December 31, 1996.

The S&P 500 Index is an unmanaged index of 500 stocks representing major U.S. industries.

\* Source: Factset and StockVal. \*\*For the 12 months through 12/31/96.

(1) S&P 500. (2) S&P Industrials.

13

32

#### VALUE REPORT

#### HEARTLAND VALUE PLUS FUND

#### GETTING PAID TO WAIT

In assessing a company, we look for a potential catalyst -- a factor that could drive up the stock price.

But a catalyst is rarely prompt, and ideally we like to get paid while we wait. Which is one reason we're attracted to convertible bonds.

More conservative than common stocks, convertibles are hybrid securities, with a fixed income component and an option on the underlying stock. Relative to their underlying common stocks, convertibles typically offer much higher yields, which provide downside price protection and have contributed to historically competitive returns. Thus, we may purchase a company's convertible instead of its common, gaining not only a generous stream of income while we wait for a catalyst, but also the appreciation potential of the convertible feature.

Take THERATX, INC., a nationwide provider of sub-acute care and occupational health services. Although TheraTx was growing at 20% a year, potential changes in Medicare reimbursement rules had caused its stock to drop to 8X earnings and a tad above book value in '96.

Yet the company's debt seemed even more underpriced to us. So we purchased the company's 8% convertible due in 2002. Our \$920 cost gave us a current yield of 8.8% and a 10% yield to maturity.

We believe the Medicare issue -- our potential catalyst -- is bound to be resolved. And we're happily collecting a very healthy yield while we wait.

On 12-31-96, the TheraTx, Inc. 8% convertible subordinated notes due on 2/1/02 were priced at \$92.63 and represented 1.1% of the Fund's net assets.

14

33

#### VALUE REPORT

#### HEARTLAND VALUE PLUS FUND

#### OBJECTIVE

The Heartland Value Plus Fund is an equity-income investment that seeks both capital appreciation and current income.

#### AVERAGE ANNUAL RETURNS

|                            | 1-year | Since inception |
|----------------------------|--------|-----------------|
|                            | -----  | 10/26/93        |
|                            | -----  | -----           |
| Heartland Value Plus Fund  | 33.8%  | 17.4%           |
| Russell 2000               | 16.5   | 13.9            |
| Lipper Equity Income Index | 17.9   | 14.1            |
| January Yield(1)           | 2.8    |                 |
| S&P 500 Yield              | 2.0    |                 |



The Russell 2000 Index is an unmanaged index of stocks considered to be representative of the small cap market in general. The Lipper Equity Income Fund Index is an equally weighted index of the performance of the 30 largest equity income funds as tracked by Lipper Analytical Services, Inc. (1)January SEC yield annualized for the 30 days commencing 1/1/97. The S&P 500 Index is an unmanaged index of 500 stocks representing major U.S. industries. Small company stocks may be more volatile than those of the S&P 500.

GENERAL INFORMATION

|                                 |                                     |
|---------------------------------|-------------------------------------|
| <TABLE>                         |                                     |
| <S>                             | <C>                                 |
| Net assets.....\$66.6 MIL       | P/E ratio ('97 est.).....13.8X      |
| Share price.....\$13.73         |                                     |
| Number of holdings.....53       | Growth of \$10,000 since            |
| Median market cap.....\$163 MIL | Inception on 10/26/93.....\$16,646* |

TOP 10 HOLDINGS

|                                       |  |
|---------------------------------------|--|
| NovaCare, Inc. ....3.8%               | Berry Petroleum Company.....2.6%           |
| TR Financial Corporation.....3.7      | Stewart & Stevenson Services, Inc. ....2.4 |
| Woodward Governor Company.....3.4     | Bell Sports Corp. 4.25% 11/15/00.....2.4   |
| USX Delhi Group.....3.0               | Flexsteel Industries, Inc. ....2.3         |
| Walden Residential Pfd. Stock.....2.9 | Nash Finch Company.....2.2                 |

</TABLE>

PORTFOLIO COMPOSITION

[graphic - A pie chart displays categories of the Heartland Value Plus Fund's portfolio as of 12/31/96: preferred stock at 2.9%; cash & equivalents at 23.9%; corporate bonds at 4.6%; convertibles bonds at 14.2%; common stocks at 54.4%. Common stocks is further broken down as follows: manufacturing at 12.2%; banks and S&Ls at 8.2%; energy & natural resources at 7.6%; aerospace at 4.8%; food & beverage at 4.3%; health care services at 3.8%; leisure at 3.7%; utilities at 3.0%; insurance at 2.8%; retail at 1.5%; REITs at 1.5%; financial services at 0.8%; communications at 0.2%.]

All statistics are as of  
December 31, 1996.

\* Assumes reinvestment of all dividends and capital gains distributions

VALUE REPORT

HEARTLAND VALUE PLUS FUND

MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE

The Value Plus Fund enjoyed a wonderful 1996. Its total return of 33.8% more than doubled that of its index, the Russell 2000.

The Fund paid dividends of \$0.38 for the year, and ended the year with a yield of 3.12%.\*

The Fund's exposure to the energy sector -- as high as 15% in August -- contributed to its performance. Energy stocks benefited from a 33% rise in crude oil prices during the year.

In anticipation of a lower interest rate environment, we gradually increased our exposure to the interest-rate-sensitive banking and financial services sectors. At year-end, these holdings represented 12% of net assets.

In addition, we continued to find stocks of well-managed manufacturers selling at compelling valuations relative to earnings, cash flow and book value. At year-end, manufacturing companies were the Fund's largest holding, at 12.2% of net assets.

The Fund is cautiously positioned for 1997, with 23.9% of net assets in cash and equivalents. We believe the bull market of recent years has increased investment risk by producing not only terribly high equity valuations, but also highly unrealistic investor expectations. This risk, we believe, is exacerbated by historically low levels of cash in mutual funds.

[line chart illustrating performance of an assumed investment of \$10,000 in

the Heartland Value Plus Fund, the S&P 400 Mid-Cap Index and the Russell 2000 Index beginning on October 26, 1993 as follows:

|          | Heartland<br>Value Plus<br>Fund | S&P 400<br>Mid-Cap<br>Index | Russell<br>2000 |
|----------|---------------------------------|-----------------------------|-----------------|
| 12/31/93 | \$10,522                        | \$10,537                    | \$10,296        |
| 12/31/94 | \$10,001                        | \$10,159                    | \$10,110        |
| 12/31/95 | \$12,441                        | \$13,304                    | \$12,985        |
| 12/31/96 | \$16,646                        | \$15,631**                  | \$14,912        |

Legend in graph states that Past Performance is not predictive of future results.

A box below the graph states Average Annual Total Returns as of 12/31/96 as follows:

1-year 33.8%  
since inception 17.4%]

Given these caution signs, we prefer to keep our powder dry until valuations return to more normal historical levels. In the meantime, we will continue investing -- on a highly selective basis -- in stocks and bonds of smaller companies that meet our value criteria.

\*SEC yield for the 30 days commencing 12-1-96. \*\*In 1996, we refined the Fund's investment policies to a small-cap, equity-income focus. We will thus now compare the Fund only to the Russell 2000. We will no longer compare it to the S&P Mid-Cap Index or the Lehman Intermediate Corporate Bond Index. For the period from 10/26/93 through 12/31/96, \$10,000 invested in the Lehman Index would have grown to \$12,022.

16

35

VALUE REPORT

HEARTLAND U.S. GOVERNMENT SECURITIES FUND

MANAGEMENT'S DISCUSSION OF FUND PERFORMANCE

At this time last year, we were reporting the best year in the Fund's history -- a return of 19% for 1995. Regrettably, 1996 was less prosperous, with a total return of only 2.0%. Granted, the Fund matched the return of Lipper's General U.S. Government Fund Index (up 2.0%), but it was outdistanced by the Lehman Intermediate Treasury Index (up 4.0%).\*

The year began on a negative note for bonds, as the yield on the 30-year Treasury rose from 6.0% at the end of '95 to 7.2% in June. The rise reflected a stronger than expected economy and fears that the Federal Reserve would raise rates.

Because we had expected rates to fall in 1996, we started the year with a rather long maturity of 12.3 years. Within our strategy of active management, we responded by shortening maturities dramatically -- to 2.8 years in March -- then lengthening to 11.5 years in June in anticipation of rallies in the bond market. To further limit the Fund's volatility in this rising rate environment, we also decreased our holdings of zero coupon and intermediate-term Treasuries. At the same time, we purchased mortgage-backed securities for what we see as their relative price stability and attractive yields.

During the year, about 25% of the Fund, on average, was invested in

[line chart illustrating performance of an assumed investment of \$10,000 in the Heartland U.S. Government Fund, the Lipper General U.S. Government Fund Index and the Lehman Intermediate Treasury Index beginning on April 9, 1987 as follows:

|          | Heartland<br>Fund | Lipper<br>Index | Lehman<br>Treasury |
|----------|-------------------|-----------------|--------------------|
| 12/31/87 | \$10,191          | \$ 9,928        | \$ 9,984           |
| 12/31/88 | \$10,846          | \$10,710        | \$10,949           |
| 12/31/89 | \$12,072          | \$12,041        | \$12,338           |

|          |          |          |          |
|----------|----------|----------|----------|
| 12/31/90 | \$13,277 | \$13,006 | \$13,504 |
| 12/31/91 | \$15,529 | \$14,908 | \$15,410 |
| 12/31/92 | \$17,095 | \$15,819 | \$16,482 |
| 12/31/93 | \$20,141 | \$17,135 | \$17,838 |
| 12/31/94 | \$18,199 | \$16,324 | \$17,523 |
| 12/31/95 | \$21,656 | \$19,090 | \$20,050 |
| 12/31/96 | \$22,089 | \$19,255 | \$20,849 |

Legend in graph states that Past Performance is not predictive of future results.

A box below the graph states Average Annual Total Returns as of 12/31/96 as follows:

|                 |      |
|-----------------|------|
| 1-year          | 2.0% |
| 5-year          | 7.3% |
| since inception | 8.5% |

corporate securities. Bonds issued by IMC Fertilizer Group, Inc., GranCare, Inc. and Quantum Health Resources, Inc. all showed substantial gains.

We believe 1997 will be more favorable for bonds. And we will use our strategies of sector rotation, duration management and security selection to enhance our investors' returns.

\*The Lehman Intermediate Treasury Index is an unmanaged index of all Treasuries issued by the U.S. Government that have maturities of greater than one year but less than ten years and at least \$100 million in outstanding issuance.

17

36

#### VALUE REPORT

#### HEARTLAND U.S. GOVERNMENT SECURITIES FUND

#### CHANGES TO YOUR FUND

Ordinarily, we would devote this space to a discussion of the value criteria we used to purchase or sell a particular security. Instead, we would like to announce some major changes to the Fund. These changes become effective on March 31, 1997. We believe they will make the Fund much more focused and conservative, and thus suitable for a broader range of investors.

- GREATER SAFETY. The Fund intends to invest virtually 100% of its assets in securities issued or guaranteed by the U.S. Government or its agencies. This should give the Fund's portfolio an average AAA credit rating. We have eliminated its higher-risk corporate bond component.
- LOWER PRICE VARIABILITY. Instead of operating within an open-ended maturity range, the Fund will be managed with an average duration of 3 - 6 years. Duration, like maturity, is a measure of interest-rate risk. But we at Heartland Funds believe duration is a more precise measure. And we chose this narrow duration range as a tool for reducing price variability in the Fund.
- LOWER EXPENSES. To make the Fund more competitive, Heartland Advisors will waive an additional portion of its management fee. The new fee -- just .25% of assets -- will be half the current fee, and will result in a higher effective yield for investors.

We hope these changes encourage people to invest -- or reinvest -- in the Fund.

"We restructured the Fund with the goal of offering rock-solid credit safety, lower price variability, and highly competitive returns."

Patrick J. Retzer  
Portfolio Manager

18

37

#### VALUE REPORT

OBJECTIVE

The Heartland U.S. Government Securities Fund seeks a high level of current income, liquidity and safety of principal.

AVERAGE ANNUAL RETURNS

|  | 1-year | 5-year | Since inception<br>4/9/87 |
|--|--------|--------|---------------------------|
|  | -----  | -----  | -----                     |
| Heartland<br>U.S. Government Securities Fund | 2.0%   | 7.3%   | 8.5%                      |
| Lipper General<br>U.S. Government Fund Index | 2.0    | 5.5    | 7.1                       |
| January Yield(1)                             | 6.5    |        |                           |

(1) January SEC yield annualized for the 30 days commencing 1/1/97. The Lipper General U.S. Government Fund Index is an equally weighted index of the performance of the 30 largest U.S. general government funds as tracked by Lipper Analytical Services, Inc.

GENERAL INFORMATION

| <TABLE>                      | <C>        | <C>                          | <C>       |
|------------------------------|------------|------------------------------|-----------|
| <S>                          |            |                              |           |
| Net assets .....             | \$51.7 mil | Avg. weighted duration ..... | 8.0 yrs.  |
| Share price .....            | \$ 9.54    | Growth of \$10,000 since     |           |
| Avg. weighted maturity ..... | 11.6 yrs.  | inception on 4/9/87 .....    | \$22,089* |

TOP 5 HOLDINGS

|  |       |  |     |
|--|-------|--|-----|
| U.S. Treasury Bond 0% 11/15/2016 .....     | 12.1% | U.S. Treasury Bond 0% 11/15/2014 .....   | 8.7 |
| FNMA SEQ-CMO 1993-2 PG 7.00% 2/25/20 ..... | 11.4  | U.S. Treasury Note 7.25% 5/15/2004 ..... | 8.2 |
| FHLMC PAC-CMO 1619B 6.40% 1/15/23 .....    | 9.4   |  |     |

PORTFOLIO COMPOSITION

[graphic - A pie chart displays categories of the Heartland U.S. Government Securities Fund's portfolio as of 12/31/96: agency mortgage-backed securities at 38.8%; cash/other at -0.2%; U.S. Treasury & agency at 35.8%; corporate bonds at 25.6%.]

All statistics are as of December 31, 1996.

\* Assumes reinvestment of all dividends and capital gains distributions

VALUE REPORT

[PHOTO OF MILWAUKEE]

At Heartland, we're at home with the Milwaukee traditions of hard work and commitment to value.

[Logo] Heartland Funds  
-----  
AMERICA'S VALUE INVESTOR

SCHEDULES OF INVESTMENTS  
AND FINANCIAL STATEMENTS

|      |                                 |
|------|---------------------------------|
| PAGE | FUND                            |
| ---- | ----                            |
| 22   | SMALL CAP CONTRARIAN FUND       |
| 28   | VALUE FUND                      |
| 37   | MID CAP VALUE FUND              |
| 41   | LARGE CAP VALUE FUND            |
| 45   | VALUE PLUS FUND                 |
| 50   | U.S. GOVERNMENT SECURITIES FUND |

-----  
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS  
-----

To the Shareholders and Board of Directors of Heartland Small Cap Contrarian Fund, Heartland Value Fund, Heartland Mid Cap Value Fund, Heartland Large Cap Value Fund, Heartland Value Plus Fund, and Heartland U.S. Government Securities Fund:

We have audited the accompanying schedules of investments, including the statements of assets and liabilities, of Heartland Small Cap Contrarian Fund, Heartland Value Fund, Heartland Mid Cap Value Fund, Heartland Large Cap Value Fund, Heartland Value Plus Fund, and the statement of net assets of Heartland U.S. Government Securities Fund (collectively the "Funds," six of the series comprising Heartland Group, Inc., a Maryland corporation) as of December 31, 1996 and the related statements of operations for the period then ended, the statements of changes in net assets for each of the periods presented, and the financial highlights for the periods then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 1996 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Funds as of December 31, 1996, the results of operations for the periods then ended, the changes in net assets for each of the periods presented, and the financial highlights for each of the periods then ended in conformity with generally accepted accounting principles.

Milwaukee, Wisconsin  
February 7, 1997

ARTHUR ANDERSEN LLP

HEARTLAND SMALL CAP CONTRARIAN FUND  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 1996

<TABLE>  
<CAPTION>

| SHARES  | COMMON STOCKS - 86.4%  | VALUE       |
|---------|--|-------------|
| -----   |  |             |
| <S>     | <C>  | <C>         |
|         | AUTOMOTIVE - 2.3%  |             |
| 100,000 | Control Devices, Inc. - Circuit breakers, electronic sensors and electronic ceramic parts (a)..... | \$1,300,000 |
| 100,000 | Deflecta-Shield Corporation - Accessories for light and heavy duty trucks (a).....                 | 862,500     |
| 100,000 | Donnelly Corporation - Glass related and plastic molded products for the auto industry.....        | 2,450,000   |
| 104,000 | Motorcar Parts & Accessories - Remanufactures and distributes alternators and starters (a).....    | 1,521,000   |
|         |  | -----       |
|         |  | 6,133,500   |
|         |  |             |
|         | BANKS AND SAVINGS & LOANS - 4.1%   |             |
| 50,000  | BankUnited Financial Corp. (Class A) - Operates nine banking offices in south Florida (a).....     | 500,000     |

|           |  |            |
|-----------|--|------------|
| 42,000    | Beverly Bancorporation - Community bank serving southwest Chicago.....                             | 758,625    |
| 37,800    | CB Bancorp, Inc. - Savings bank in northern Indiana (a).....                                       | 897,750    |
| 50,000    | Community Financial Corporation - Savings bank operating in five southern Illinois counties.....   | 637,500    |
| 50,600    | Foothill Independent Bancorp - Bank holding company operating in suburban LA (a).....              | 581,900    |
| 104,167   | Highland Federal Bank - Savings bank in Los Angeles, California (a).....                           | 1,770,839  |
| 50,000    | North Central Bancshares, Inc. - Savings bank in Fort Dodge, Iowa.....                             | 678,125    |
| 40,000    | Security Capital Corporation - Holding company for Security Bank S.S.B. in Wisconsin.....          | 2,950,000  |
| 57,500    | Union Bankshares, Ltd. - Offers commercial banking services in Denver (a)(b).....                  | 920,000    |
| 70,000    | UnionBancorp, Inc. - Commercial banking, debt collection, data processing in IL.....               | 1,015,000  |
|           |  | -----      |
|           |  | 10,709,739 |
|           | COMMUNICATIONS - 4.1%  |            |
| 280,000   | Communications Central, Inc. - Operator of pay phones and inmate phones (a).....                   | 2,170,000  |
| 500,000   | Executone Information Systems, Inc. - Telecommunications systems and equipment (a).....            | 1,187,500  |
| 240,000   | ICTS International NV - Provides aviation security services (a).....                               | 2,430,000  |
| 775,000   | Interdigital Communications Corporation - Mkts digital radio telephone systems (a).....            | 4,456,250  |
| 100,000   | TCI International, Inc. - Manufactures special purpose communications equipment (a).....           | 700,000    |
|           |  | -----      |
|           |  | 10,943,750 |
|           | CONSTRUCTION/HOUSING - 0.4%  |            |
| 116,800   | Belmont Homes, Inc. - Produces low cost high quality homes at competitive prices (a).....          | 1,124,200  |
|           | EDUCATION - 1.1%   |            |
| 400,000   | Children's Discovery Centers of America, Inc. - Child care and preschool programs (a)(b).....      | 2,800,000  |
|           | ELECTRICAL & ELECTRONICS - 3.3%  |            |
| 250,000   | Bolder Technologies Corp. - Develops and mfrs. rechargeable battery systems (a)(d).....            | 2,671,100  |
| 200,000   | Charter Power Systems, Inc. - Mfrs. battery-powered systems for motive power markets.....          | 6,100,000  |
|           |  | -----      |
|           |  | 8,771,100  |
|           | ENERGY & NATURAL RESOURCES - 11.9%   |            |
| 187,500   | Apex Silver Mines Ltd. - Explores and develops silver properties worldwide (d).....                | 1,500,000  |
| 400,000   | Alta Gold Company - Explores and produces metals including gold, silver, and zinc (a).....         | 1,412,520  |
| 500,000   | Beau Canada Exploration Ltd. - Explores and develops oil and natural gas in western Canada (a).... | 875,600    |
| 300,000   | Cabot Oil & Gas Corporation - Explores and develops natural gas; produces crude.....               | 5,137,500  |
| 50,000    | Callon Petroleum Company - Gulf of Mexico oil and gas producer (a).....                            | 950,000    |
| 6,000,000 | Campbell Resources, Inc. - Explores for and produces gold and minerals in North America (a).....   | 5,625,000  |
| 200,000   | COHO Energy, Inc. - Develops, produces and explores for oil and gas in LA and MS (a).....          | 1,425,000  |
| 72,300    | Dawson Geophysical Company - Processes and interprets seismic data for oil and natural gas (a).... | 813,375    |
| 702,700   | Geomaque Explorations Ltd. - Exploration and development company in Mexico and Quebec (a).....     | 1,692,031  |
| 530,000   | Gothic Energy Corporation - Holds interests in oil and gas properties in OK, TX, AK and KS (a).... | 1,258,750  |
| 750,000   | HCO Energy Ltd. - Explores and produces oil and gas in Alberta and Saskatchewan (a).....           | 848,250    |
| 300,000   | High Plains Corporation - Manufacturer of fuel grade ethanol (a).....                              | 1,556,250  |
| 41,600    | Key Production Company, Inc. - Operates oil and gas properties in OK and TX (a).....               | 530,400    |
| 63,000    | McFarland Energy, Inc. - Explores and produces oil and gas in CA and the Gulf Coast (a).....       | 763,875    |
| 55,000    | Offshore Energy Development Corp. - Acquires, explores and develops natural gas (a).....           | 838,750    |
| 410,000   | Serv-Tech, Inc. - Offers maintenance services to petroleum refining industry (a)(b).....           | 999,375    |
| 100,000   | Summit Resources, Ltd. - Explores, develops, acquires, produces and markets oil and gas.....       | 507,110    |
| 1,000,000 | Tipperary Corp. - Explores, develops and produces oil and gas primarily in Australia (a)(b).....   | 4,625,000  |
|           |  | -----      |
|           |  | 31,358,786 |

</TABLE>

HEARTLAND SMALL CAP CONTRARIAN FUND  
SCHEDULE OF INVESTMENTS [CONT'D] - DECEMBER 31, 1996

<TABLE>

<CAPTION>

| SHARES  | COMMON STOCKS - 86.4% [CONT'D]   | VALUE        |
|---------|--|--------------|
| <S>     | <C>  | <C>          |
|         | ENVIRONMENTAL SERVICES - 4.8%  |              |
| 150,000 | Dames & Moore, Inc. - Comprehensive environmental and specialized consulting services.....         | \$ 2,193,750 |
| 600,000 | GNI Group, Inc. - Recycles, reclaims, treats and disposes hazardous wastes (a)(b).....             | 3,975,000    |
| 475,000 | Harding Lawson Associates Group, Inc. - Remediation of contamination sites (a)(b).....             | 3,325,000    |
| 100,000 | KTI Inc. - Holds interest in environmental recycling and computer services (a).....                | 750,000      |
| 275,000 | O. I. Corporation - Produces devices for pollution detection (a)(b).....                           | 979,688      |
| 650,000 | Vectra Technologies, Inc. - Provides products/services to nuclear facilities worldwide (a)(b)..... | 1,300,000    |
|         |  | -----        |
|         |  | 12,523,438   |
|         | FINANCIAL SERVICES - 2.5%  |              |
| 125,000 | ACC Consumer Finance Corporation - Indirect financing of automobile installment contracts (a)..... | 1,203,125    |

|         |   |            |
|---------|---|------------|
| 400,000 | Dignity Partners, Inc. - Provides viatical settlements for terminally ill people (a)(b).....    | 1,050,000  |
| 200,000 | Fahnestock Viner Holdings, Inc. - Full service regional brokerage.....                          | 2,900,000  |
| 100,000 | Resource Bancshares Mortgage Corporation - Originates and secures residential mortgage loans..  | 1,425,000  |
|         |   | -----      |
|         |   | 6,578,125  |
|         | FOOD & BEVERAGE - 0.7%  |            |
| 700,000 | Family Steak Houses of Florida, Inc. - Operates 28 restaurants in Florida (a)(b).....           | 437,500    |
| 300,000 | The Lion Brewery, Inc. - Brews and bottles specialty beers and soft drinks (a)(b).....          | 1,256,250  |
|         |   | -----      |
|         |   | 1,693,750  |
|         | HEALTH CARE SERVICES - 7.1%   |            |
| 100,000 | Hanger Orthopedic Group, Inc. - Patient care services for orthotic and prosthetic rehab (a)...  | 650,000    |
| 195,000 | Health Fitness Physical Therapy, Inc. - Acquires and develops physical therapy clinics (a)....  | 585,000    |
| 100,000 | Help at Home, Inc. - General housekeeping services to the elderly and disabled (a)(b).....      | 500,000    |
| 450,000 | ICN Pharmaceuticals, Inc. - Manufactures and markets a broad range of drugs.....                | 8,831,250  |
| 759,000 | In Home Health, Inc. - A national provider of home health care services (a).....                | 1,470,563  |
| 600,000 | Interpore International - Manufactures bone graft material for orthopedic market (a)(b).....    | 2,550,000  |
| 300,000 | Syncor International Corporation - Distributes radiopharmaceutical products (a).....            | 4,012,500  |
|         |   | -----      |
|         |   | 18,599,313 |
|         | INSURANCE - 5.1%  |            |
| 100,000 | Cotton States Life & Health Insurance - Underwrites life, accident and health insurance.....    | 1,425,000  |
| 200,000 | Financial Industries Corporation - Life and health insurance products (a).....                  | 2,275,000  |
| 550,000 | London Pacific Group Ltd. (ADR) - Offers insurance and trust services.....                      | 7,700,000  |
| 61,500  | Motor Club of America - Provides insurance, finance and related services (a).....               | 584,250    |
| 41,500  | Omni Insurance Group, Inc. - Underwrites nonstandard automobile insurance for individuals (a).. | 394,250    |
| 100,000 | Unico American Corporation - Commercial multi-peril insurance.....                              | 1,087,500  |
|         |   | -----      |
|         |   | 13,466,000 |
|         | LEISURE - 0.3%  |            |
| 105,000 | NTN Canada, Inc. - Markets and distributes NTN Entertainment Network in Canada (a).....         | 538,125    |
| 14,000  | Vacation Break USA, Inc. - Vacation interests in premium resorts (a).....                       | 283,500    |
|         |   | -----      |
|         |   | 821,625    |
|         | MANUFACTURING - 11.3%   |            |
| 30,000  | Astro-Med, Inc. - Specialty high-speed printers.....  | 255,000    |
| 100,000 | Astrotech International Corp. - Storage tanks for oil, paper and agricultural industries (a)..  | 575,000    |
| 335,000 | Consep, Inc. - Produces environmentally safe pest control products (a).....                     | 1,005,000  |
| 200,000 | Dynamic Materials Corporation - Produces chemical processing materials (a)(b).....              | 1,875,000  |
| 200,000 | Friedman Industries, Inc. - Processes and distributes steel products to manufacturers.....      | 1,150,000  |
| 525,000 | Hyde Athletic Industries, Inc. (Class B) - Athletic shoes and outdoor recreational products (a) | 2,690,625  |
| 110,000 | K-Tron International Inc - Gravimetric feeders and blenders and other process control equip (a) | 1,127,500  |
| 18,400  | Koss Corporation - Designs and mfrs headphones, speakers and related products (a).....          | 124,200    |
| 220,000 | Northwest Pipe Company - Welded steel pipe for water transmission (a).....                      | 3,575,000  |
| 200,000 | Oregon Steel Mills, Inc. - Produces a variety of specialty and commodity steel products.....    | 3,350,000  |
| 200,000 | Portec, Inc. - Produces railroad, construction and materials handling equipment.....            | 1,975,000  |
| 200,000 | Shelter Components Corporation - Distributes products to housing and RV industries.....         | 2,450,000  |
| 300,000 | Shiloh Industries, Inc. - Steel processor supplying automotive and other industries (a).....    | 4,875,000  |
| 290,000 | Speizman Industries, Inc. - Sells hosiery and knitting manufacturing equipment (a)(b).....      | 1,721,875  |
| 300,000 | Winslow Furniture, Inc. - Designs, distributes and manufactures casual furniture (a).....       | 2,925,000  |
|         |   | -----      |
|         |   | 29,674,200 |

</TABLE>

HEARTLAND SMALL CAP CONTRARIAN FUND  
SCHEDULE OF INVESTMENTS [CONT'D] - DECEMBER 31, 1996

<TABLE>  
<CAPTION>

| SHARES    | COMMON STOCKS 86.4% - [CONT'D]   | VALUE        |
|-----------|--|--------------|
| <S>       | <C>  | <C>          |
|           | MARKETING/CORP SERVICES - 3.0%   |              |
| 313,500   | Business Resource Group - Workspace services and products in northern California (a)(b) .....        | \$ 1,645,875 |
| 195,000   | Globe Business Resources, Inc. - Rents and sells office and residential furniture (a) .....          | 1,998,750    |
| 1,000,000 | Luminart, Inc. - Provides visual effects enhancements (a)(b) .....                                   | 751,600      |
| 200,000   | Personnel Management, Inc. - Temporary service in Midwest and Southeast (a)(b) .....                 | 1,700,000    |
| 100,000   | PIA Merchandising Services, Inc. - Supplier of regularly scheduled routed merchandising services (a) | 1,050,000    |
| 100,000   | RCM Technologies, Inc. - Temporary and full-time professional services (a) .....                     | 875,000      |

|                         |  |               |
|-------------------------|--|---------------|
|                         |  | 8,021,225     |
| MEDICAL PRODUCTS - 7.1% |  |               |
| 500,000                 | Autonomous Technologies Corp. - Excimer laser instruments for laser vision correction (a) (b) .....  | 2,000,000     |
| 500,000                 | Bio-Vascular, Inc. - Markets biosynthetic-based medical products (a) (b) .....                       | 3,312,500     |
| 175,000                 | Isomedix, Inc. - Irradiation services to manufacturers of medical supplies (a) .....                 | 2,275,000     |
| 250,000                 | Life Medical Sciences, Inc. - Develops medical products using tissue culturing technology (a) .....  | 1,656,250     |
| 200,000                 | Moore Medical Corporation - Pharmaceutical and medical products distributor (a) (b) .....            | 2,050,000     |
| 231,105                 | New Brunswick Scientific, Inc. - Manufactures and markets biotechnology equipment (a) (b) .....      | 1,617,735     |
| 1,000,000               | Orthologic Corporation - Proprietary, technologically advanced orthopedic devices (a) .....          | 5,625,000     |
|                         |  | 18,536,485    |
| REITS - 2.5%            |  |               |
| 500,000                 | Equity Inns Inc. - Equity interests in hotels in 26 states .....                                     | 6,500,000     |
| RETAIL - 8.0%           |  |               |
| 505,000                 | Allou Health and Beauty, Inc. (Class A) - Health and beauty products (a) (b) .....                   | 3,377,188     |
| 433,000                 | Catherines Stores Corporation - Specialty apparel retailer of women's clothing (a) (b) .....         | 2,381,500     |
| 400,000                 | Chico's Fas, Inc. - Operates retail women's clothing stores (a) (b) .....                            | 1,700,000     |
| 115,100                 | Coast Distribution System - Recreational vehicle accessories and marine parts (a) .....              | 417,238       |
| 325,000                 | Crown Books Corporation - 247 retail book stores offering discount prices (a) (b) .....              | 3,818,750     |
| 40,000                  | Dart Group Corporation (Class A) - Automotive parts stores, bookstores and grocery stores .....      | 3,720,000     |
| 300,000                 | Fred's, Inc. (Class A) - Operates 188 discount general merchandise stores .....                      | 2,587,500     |
| 700,000                 | Harmony Brook, Inc. - Water filtering equipment developer, mfr, distributor, operator (a) (b) .....  | 393,750       |
| 400,000                 | Little Switzerland, Inc. - Retailer in the Caribbean Islands (a) .....                               | 1,825,000     |
| 263,300                 | Strouds, Inc. - Specialty retailer of home textile products (a) .....                                | 855,725       |
|                         |  | 21,076,651    |
| TECHNOLOGY - 6.5%       |  |               |
| 400,000                 | Boca Research, Inc. - Manufactures computer enhancement products (a) .....                           | 4,150,000     |
| 1,065,600               | Compression Labs, Inc. - Markets and produces visual communications systems (a) (b) .....            | 4,062,600     |
| 75,000                  | Diehl Graphsoft, Inc. - Develops and publishes computer software products (a) .....                  | 515,625       |
| 343,500                 | Jaco Electronics, Inc. - Distributes electronic components and subsystems (a) (b) .....              | 2,919,750     |
| 264,800                 | M-Wave, Inc. - Manufactures microwave circuit boards (a) (b) .....                                   | 662,000       |
| 600,000                 | PolyVision Corporation - Manufactures visual display and interior design products (a) (b) .....      | 450,000       |
| 100,000                 | Reptron Electronics, Inc. - Provides contract manufacturing services for electronic products (a) ... | 2,062,500     |
| 300,000                 | UniComp, Inc. - Develops computer payment processing software (a) (b) .....                          | 2,325,000     |
|                         |  | 17,147,475    |
| TRANSPORTATION - 0.3%   |  |               |
| 50,000                  | Airnet Systems, Inc. - Air transportation network for time-critical shipment deliveries (a) .....    | 737,500       |
|                         | TOTAL COMMON STOCKS (Cost \$215,495,302) .....   | \$227,216,862 |

<CAPTION>

| SHARES                   | PREFERRED STOCKS - 1.8%   | VALUE        |
|--------------------------|---|--------------|
| CONSUMER PRODUCTS - 1.1% |   |              |
| 22,500                   | Drypers Corp. 7.5% Senior convertible cumulative - Manufactures and markets disposable baby diapers (b) (d) .....     | \$ 2,934,783 |
| MANUFACTURING - 0.7%     |   |              |
| 690,000                  | Excelsior-Henderson Motorcycle Mfg. Co. Series A convertible - American manufacturer of motorcycles (a) (b) (d) ..... | 1,725,000    |
|                          | TOTAL PREFERRED STOCKS (Cost \$3,975,000) .....   | \$ 4,659,783 |

</TABLE>

HEARTLAND SMALL CAP CONTRARIAN FUND  
SCHEDULE OF INVESTMENTS [CONT'D] - DECEMBER 31, 1996

<TABLE>  
<CAPTION>

| PAR AMOUNT   | SHORT-TERM INVESTMENTS - 5.7%         | COUPON | MATURITY   | VALUE         |
|--------------|---------------------------------------|--------|------------|---------------|
| <S>          | <C>                                   | <C>    | <C>        | <C>           |
|              | U. S. TREASURY SECURITIES - 5.2%      |        |            |               |
| \$14,000,000 | U. S. Treasury Bill (c) .....         | 0.000% | 04/17/1997 | \$ 13,793,360 |
|              | VARIABLE RATE DEMAND NOTES (+) - 0.5% |        |            |               |
| 1,320,000    | Warner-Lambert Company .....          | 5.479  | 03/18/1997 | 1,320,000     |



|  |        |                |
|--|--------|----------------|
| TOTAL SHORT-TERM INVESTMENTS (Cost \$15,113,360) ..... |        | \$ 15,113,360  |
| TOTAL INVESTMENTS - (Cost \$234,583,662) ...           | 93.9%  | \$ 246,990,005 |
| Cash and receivables, less liabilities ....            | 6.1%   | \$ 16,021,391  |
|  |        | -----          |
| TOTAL NET ASSETS .....                                 | 100.0% | \$ 263,011,396 |
|  | =====  | =====          |

<CAPTION>

| SHARES  | SHORT SALES - (6.9)%  | VALUE         |
|---------|---|---------------|
| <S>     | <C>   | <C>           |
| 20,000  | 3Com Corporation - Designs, produces and mkts global data networking solutions (a) .....  | \$ 1,467,500  |
| 10,000  | Alydaar Software Corporation - Translates old computer language to newer language (a) ... | 120,000       |
| 50,000  | BMC Industries, Inc. - Manufactures precision imaged and optical products (a) .....       | 1,575,000     |
| 30,000  | Cisco Systems, Inc. - Develops, mfrs, mkts and supports internetworking systems (a) ..... | 1,908,750     |
| 100,000 | Dollar Tree Stores, Inc. - Operates 400 discount variety stores in 20 states (a) .....    | 3,825,000     |
| 120,000 | Drypers Corporation - Manufactures and markets disposable baby diapers (a) .....          | 450,000       |
| 100,000 | Employee Solutions, Inc. - Provides lease staffing (a) .....                              | 2,050,000     |
| 100,000 | Gentex Corporation - Manufactures rearview mirrors and fire protection equipment (a) .... | 2,012,500     |
| 50,000  | Liposome Company, Inc. - Develops lipid and liposome-based pharmaceuticals (a) .....      | 956,250       |
| 75,000  | Pentair Inc. - Manufactures enclosures for various types of equipment .....               | 2,418,750     |
| 35,000  | Silicon Gaming, Inc. - Designs and develops interactive slot machines .....               | 564,375       |
| 20,000  | Sykes Enterprises, Inc - Provides technology outsourcing services (a) .....               | 750,000       |
|         |   | -----         |
|         | TOTAL SHORT SALES (Proceeds \$16,004,793) .....   | \$ 18,098,125 |
|         |   | =====         |

</TABLE>

- (a) Non-income producing security.  
(b) Affiliated company. See Note 7 in Notes to Financial Statements.  
(c) Security committed as collateral for short sales. See Note 2(f) in Notes to Financial Statements.  
(d) Restricted Security. See Note 2(g) in Notes to Financial Statements.  
(+) Variable rate demand notes are considered short-term obligations and are payable on demand. Interest rates change periodically on specified dates. The rate listed is as of December 31, 1996.

The accompanying Notes to Financial Statements are an integral part of this Schedule.

25

44

HEARTLAND SMALL CAP CONTRARIAN FUND  
STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 1996

<TABLE>

|  |               |
|--|---------------|
| <S>  | <C>           |
| ASSETS:  |               |
| Investments in securities, at value (Cost \$234,583,662) .....                       | \$246,990,005 |
| Cash .....   | 40,977        |
| Receivable from investments sold short .....   | 30,926,347    |
| Deposits with brokers for investments sold short .....                               | 4,012,680     |
| Receivable from fund shares sold .....   | 1,073,870     |
| Accrued dividends and interest .....   | 182,483       |
| Deferred organization expense .....  | 32,869        |
|  | -----         |
| Total Assets .....   | 283,259,231   |
|  | -----         |
| LIABILITIES:   |               |
| Securities sold short, at value (Proceeds \$16,004,793) .....                        | 18,098,125    |
| Payable for investments purchased .....  | 1,618,910     |
| Payable for fund shares redeemed .....   | 280,538       |
| Distributions payable .....  | 9,597         |
| Payable to Advisor for management fee .....  | 164,906       |
| Payable to Advisor for deferred organization expense .....                           | 32,869        |
| Accrued expenses .....   | 42,890        |
|  | -----         |
| Total Liabilities .....  | 20,247,835    |
|  | -----         |
| NET ASSETS APPLICABLE TO OUTSTANDING SHARES  |               |
| (\$ .001 par value, 100,000,000 shares authorized, 19,623,261 shares outstanding) .. | \$263,011,396 |
|  | =====         |
| NET ASSET VALUE PER SHARE .....  | \$ 13.40      |

</TABLE>

STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 1996

|  |               |     |
|--|---------------|-----|
| -----  |               |     |
| <TABLE>  |               |     |
| <S>  |               | <C> |
| INVESTMENT INCOME:   |               |     |
| Interest .....   | \$ 1,981,319  |     |
| Dividends .....  | 999,936       |     |
|  | -----         |     |
| Total investment income .....                                | 2,981,255     |     |
|  | -----         |     |
| EXPENSES:  |               |     |
| Management fees .....  | 1,448,964     |     |
| Distribution fees .....                                      | 482,988       |     |
| Transfer agent fees .....                                    | 335,584       |     |
| Registration fees .....                                      | 72,907        |     |
| Postage .....  | 57,318        |     |
| Custodian fees .....   | 53,044        |     |
| Printing and communications .....                            | 36,755        |     |
| Legal fees .....   | 14,657        |     |
| Audit fees .....   | 10,365        |     |
| Amortization of organization expenses .....                  | 9,861         |     |
| Directors' fees .....  | 4,725         |     |
| Other operating expenses .....                               | 78,503        |     |
|  | -----         |     |
| Total expenses .....   | 2,605,671     |     |
|  | -----         |     |
| NET INVESTMENT INCOME .....                                  | 375,584       |     |
|  | -----         |     |
| REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS:       |               |     |
| Net realized gains (losses) on:                              |               |     |
| Long sales .....   | 15,620,852    |     |
| Short sales .....  | (292,511)     |     |
| Futures contract .....                                       | (4,292,594)   |     |
| Net increase in unrealized appreciation on investments ..... | 11,875,878    |     |
|  | -----         |     |
| TOTAL REALIZED AND UNREALIZED GAINS ON INVESTMENTS .....     | 22,911,625    |     |
|  | -----         |     |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS .....   | \$ 23,287,209 |     |
|  | =====         |     |

</TABLE>

The accompanying Notes to Financial Statements are an integral part of these Statements.

HEARTLAND SMALL CAP CONTRARIAN FUND  
STATEMENTS OF CHANGES IN NET ASSETS

|  |              |                  |
|--|--------------|------------------|
| -----  |              |                  |
| <TABLE>  |              |                  |
| <CAPTION>  |              |                  |
|  | FOR THE      | APRIL 27, 1995   |
|  | YEAR ENDED   | (COMMENCEMENT    |
|  | DECEMBER 31, | OF OPERATIONS)   |
|  | 1996         | TO DEC. 31, 1995 |
|  | -----        | -----            |
| <S>  | <C>          | <C>              |
| OPERATIONS:  |              |                  |
| Net investment income .....  | \$ 375,584   | \$ 238,523       |
| Net realized gains on investments .....  | 11,035,747   | 1,801,126        |
| Net increase in unrealized appreciation on investments .....                   | 11,875,878   | 1,027,647        |
|  | -----        | -----            |
| Net increase in net assets resulting from operations .....                     | 23,287,209   | 3,067,296        |
|  | -----        | -----            |
| DISTRIBUTIONS TO SHAREHOLDERS FROM:  |              |                  |
| Net investment income .....  | (375,584)    | (238,523)        |
| Net realized gains on investments .....  | (11,035,749) | (1,801,125)      |
|  | -----        | -----            |
| Total distributions to shareholders .....                                      | (11,411,333) | (2,039,648)      |
|  | -----        | -----            |
| FUND SHARE ACTIVITIES:   |              |                  |
| Proceeds from shares issued (18,340,944 and 7,979,895 shares, respectively)... | 245,828,468  | 92,981,836       |

|  |               |               |
|--|---------------|---------------|
| Reinvested dividends from net investment income and distributions from net realized gains on investments (743,593 and 165,607 shares, respectively)... | 9,882,164     | 1,950,847     |
| Cost of shares redeemed (6,717,525 and 889,253 shares, respectively) .....   | (90,123,683)  | (10,411,760)  |
|  | -----         | -----         |
| Net increase in net assets derived from Fund share activities .....  | 165,586,949   | 84,520,923    |
|  | -----         | -----         |
| TOTAL INCREASE IN NET ASSETS .....   | 177,462,825   | 85,548,571    |
| NET ASSETS AT THE BEGINNING OF THE PERIOD .....  | 85,548,571    | ---           |
|  | -----         | -----         |
| NET ASSETS AT THE END OF THE PERIOD .....  | \$263,011,396 | \$ 85,548,571 |
|  | =====         | =====         |

</TABLE>

FINANCIAL HIGHLIGHTS

<TABLE>

<CAPTION>

|  | FOR THE<br>YEAR ENDED<br>DECEMBER 31,<br>1996 | APRIL 27, 1995(1)<br>THROUGH<br>DEC. 31, 1995 |
|--|---|---|
|  | -----   | -----   |
| <S>  | <C>   | <C>   |
| SELECTED PER SHARE DATA                                    |   |   |
| Net asset value, beginning of period .....                 | \$ 11.79                                      | \$ 10.00                                      |
| Income from investment operations:                         |   |   |
| Net investment income .....                                | 0.02  | 0.03  |
| Net realized and unrealized gains on investments .....     | 2.20  | 2.05  |
|  | -----   | -----   |
| Total income from investment operations .....              | 2.22  | 2.08  |
| Less distributions from:                                   |   |   |
| Net investment income .....                                | (0.02)  | (0.03)  |
| Net realized gains on investments .....                    | (0.59)  | (0.26)  |
|  | -----   | -----   |
| Total distributions .....                                  | (0.61)  | (0.29)  |
| Net asset value, end of period .....                       | \$ 13.40                                      | \$ 11.79                                      |
|  | =====   | =====   |
| TOTAL RETURN .....   | 18.9%   | 20.8% (2)                                     |
| RATIOS AND SUPPLEMENTAL DATA                               |   |   |
| Net assets, end of period (in thousands) .....             | \$ 263,011                                    | \$ 85,549                                     |
| Ratio of expenses to average net assets .....              | 1.30%   | 1.44% (3)                                     |
| Ratio of net investment income to average net assets ..... | 0.19%   | 1.01% (3)                                     |
| Portfolio turnover rate .....                              | 57%   | 45%   |
| Average commission per share(4) .....                      | \$ 0.0464                                     | N/A   |

</TABLE>

- (1) Commencement of operations.  
(2) Not annualized.  
(3) Annualized.  
(4) Disclosure of average commission per share was not required prior to the year ended December 31, 1996.

The accompanying Notes to Financial Statements are an integral part of these Statements.

HEARTLAND VALUE FUND  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 1996

<TABLE>

<CAPTION>

| SHARES    | COMMON STOCKS - 86.4%  | VALUE        |
|-----------|--|--------------|
| -----     | -----  | -----        |
| <S>       | <C>  | <C>          |
|           | AEROSPACE - 1.8%   |              |
| 300,000   | Aeroflex, Inc. - Designs electrical and magnetic products for defense contractors (a) .....        | \$ 1,425,000 |
| 600,000   | ECC International Corporation - Produces flight simulators and vending machines (a)(b) .....       | 4,950,000    |
| 354,000   | FLIR Systems, Inc. - Mfrs thermal imaging systems that detect infrared radiation (a)(b) .....      | 4,867,500    |
| 500,000   | Mercury Air Group, Inc. - Ground support services to commercial airlines and US military (b) ..... | 3,562,500    |
| 194,000   | Sifco Industries, Inc. - Produces forgings for the aerospace, auto and defense industries .....    | 2,012,750    |
| 1,000,000 | UNC, Inc. - Manufactures engine and airframe parts (a)(b) .....                                    | 12,000,000   |
|           |  | -----        |
|           |  | 28,817,750   |

AUTOMOTIVE - 2.3%

|           |  |             |
|-----------|--|-------------|
| 850,100   | The Cherry Corporation (Class A) - Mfrs switches and semiconductor products (a) (b) .....                | 13,601,600  |
| 400,000   | Starcraft Corporation - Converter of vans, sport utility vehicles and trucks (a) (b) .....               | 1,500,000   |
| 500,000   | Strattec Security Corporation - Develops, mfrs and mkts automotive locks (a) (b) .....                   | 9,125,000   |
| 399,000   | Wescast Industries, Inc. (Class A) - Supplies exhaust manifolds to "big three" automakers .....          | 9,382,724   |
| 500,000   | Winnebago Industries, Inc. - Manufactures recreational vehicles .....                                    | 3,625,000   |
|           |  | -----       |
|           |  | 37,234,324  |
|           | BANKS AND SAVINGS & LOANS - 7.4%   |             |
| 110,000   | Alabama National Bancorporation - Alabama bank expanding through acquisitions .....                      | 1,952,500   |
| 50,000    | Banknorth Group, Inc. - Operates 44 banking offices throughout New England .....                         | 2,075,000   |
| 220,630   | Beverly Bancorporation - Community bank serving southwest Chicago .....                                  | 3,985,129   |
| 100,000   | California State Bank - 14 banking branches in Orange County .....                                       | 1,737,500   |
| 100,000   | Calumet Bancorp, Inc. - Chicago thrift that generates residential mortgages in several states (a).....   | 3,325,000   |
| 200,000   | Commercial Federal Corporation - S & L serving Nebraska, Colorado, Kansas and Oklahoma .....             | 9,600,000   |
| 400,000   | D & N Financial Corporation - Operates full service branches in central and northern MI (a) (b) .....    | 6,700,000   |
| 110,500   | Eagle Financial Corporation - Savings bank operating 24 offices in Connecticut .....                     | 3,370,250   |
| 204,500   | First Federal Bancshares of Eau Claire, Inc. - Operates 13 retail banking offices in central Wisconsin.. | 3,732,125   |
| 783,125   | First Financial Corporation - Serves WI and southern IL from approximately 124 locations .....           | 19,186,562  |
| 141,750   | Franklin Bank National Association - Business bank serving suburbs of Detroit, MI .....                  | 1,665,563   |
| 100,000   | GA Financial, Inc. - S & L in Pittsburgh area involved primarily in mortgage lending .....               | 1,512,500   |
| 55,000    | Hallmark Capital Corporation - One bank holding company in West Allis, WI (a) .....                      | 976,250     |
| 250,000   | HMN Financial, Inc. - Thrift serving Rochester, MN market (a) (b) .....                                  | 4,531,250   |
| 193,500   | Home Federal Bancorp - Provides banking services to portions of southeastern IN (b) .....                | 4,982,625   |
| 400,000   | MAF Bancorp, Inc. - Market share leader in Dupage County, IL .....                                       | 13,900,000  |
| 100,000   | Massbank Corporation - Serves customers in the Middlesex County area in eastern MA .....                 | 3,812,500   |
| 90,000    | Northwest Equity Corporation - WI holding company for Northwest Savings Bank (b) .....                   | 1,091,250   |
| 67,800    | Pinnacle Bancshares, Inc. - Operates five branches in central and SE Alabama (b) .....                   | 1,178,025   |
| 224,000   | Redwood Empire Bancorp - Holding company for banks and thrifts located in northern CA (a) .....          | 2,576,000   |
| 35,800    | SJNB Financial Corporation - General commercial banking services in Silicon Valley .....                 | 675,725     |
| 100,000   | St. Francis Capital Corporation - Wisconsin holding company for St. Francis State Bank .....             | 2,600,000   |
| 81,600    | State Financial Services Corporation (Class A) - Milwaukee area bank holding company .....               | 1,632,000   |
| 275,000   | Sterling Financial Corp. - Multi-branch savings bank serving WA and communities in OR (a) (b) .....      | 3,884,375   |
| 176,775   | Transworld Bancorp - 11 branch commercial bank in northern suburbs of Los Angeles (a) (b) .....          | 3,115,659   |
| 129,200   | United Federal Savings Bank - Commercial banking services to customers in North Carolina .....           | 1,098,200   |
| 154,930   | United Security Bancorp - Banking services through eight branches located in eastern WA (a) .....        | 2,323,950   |
| 264,000   | Virginia First Financial Corporation - Banking and mortgage services throughout VA .....                 | 3,366,000   |
| 113,499   | Washington Federal, Inc. - Operates 93 branch offices in western U.S. ....                               | 3,007,723   |
| 100,000   | Webster Financial Corporation - Third largest bank in CT .....   | 3,675,000   |
| 138,000   | Westerfed Financial Corporation - Thrift holding company in Montana .....                                | 2,518,500   |
|           |  | -----       |
|           |  | 119,787,161 |
|           | COMMUNICATION/SECURITY - 3.3%  |             |
| 410,100   | Children's Broadcasting Corporation - Provides radio programming for children (a) (b) .....              | 1,896,712   |
| 500,000   | Cobra Electronics Corp. - Dsgns/mkts communication and audio electronic products (a) (b) .....           | 1,687,500   |
| 650,000   | Comdial Corporation - Mfrs business communication systems (a) (b) .....                                  | 4,062,500   |
| 233,700   | Datron Systems, Inc. - Produces satellite communication terminals (a) (b) .....                          | 1,869,600   |
| 750,000   | First Alert, Inc. - Mfrs smoke detectors, fire extinguishers and home safety products (a) .....          | 2,531,250   |
| 2,990,000 | Interdigital Communications Corporation - Mkts digital radio telephone systems (a) (b) .....             | 17,192,500  |
| 552,000   | Norstan, Inc. - Distributes and services private telephone systems (a) (b) .....                         | 9,936,000   |
| 1,396,000 | Peoples Telephone Co., Inc. - Mkts, operates and services privately-owned pay telephones (a) (b) .....   | 4,449,750   |

28

47

HEARTLAND VALUE FUND  
SCHEDULE OF INVESTMENTS [CONT'D] - DECEMBER 31, 1996

<TABLE>  
<CAPTION>

| SHARES  | COMMON STOCKS - 86.4% [CONT'D]   | VALUE        |
|---------|--|--------------|
| <S>     | <C>  | <C>          |
|         | COMMUNICATION/SECURITY - 3.3% [CONT'D.]  |              |
| 200,000 | Superior Telecom, Inc. - Mfrs copper wire and cable products for telecommunications (a) .....        | \$ 4,075,000 |
| 289,000 | Total-Tel USA Communications, Inc. - A discount long distance telephone company (a) (b) .....        | 5,418,750    |
|         |  | -----        |
|         |  | 53,119,562   |
|         | CONSTRUCTION/HOUSING - 4.4%  |              |
| 500,000 | American Buildings Company - Constructs and sells pre-engineered metal buildings (a) (b) .....       | 11,937,500   |
| 400,000 | Cameron Ashley Building Products - Distributor of building products to independent dealers (a) ..... | 5,600,000    |
| 250,000 | Castle & Cooke, Inc. - Hawaiian home builder with substantial land holdings (a) .....                | 3,968,750    |
| 200,000 | Crossmann Communities, Inc. - Builds single family homes in Indiana (a) .....                        | 3,400,000    |
| 581,500 | Engle Homes, Inc. - Florida home builder and developer (b) .....                                     | 4,942,750    |
| 590,000 | The Fortress Group, Inc. - Home builder in NC, NV, CO and TX (a) (b) .....                           | 3,540,000    |
| 750,000 | MDC Holdings, Inc. - Constructs and sells residential housing .....                                  | 6,468,750    |
| 300,000 | MYR Group, Inc. - Transmission systems for electric utilities (b) .....                              | 3,862,500    |
| 750,000 | Morgan Products, Ltd. - Mfrs and distributes specialty building products (a) (b) .....               | 5,531,250    |
| 312,000 | Patrick Industries, Inc. - Wholesale distributor of building products and materials (b) .....        | 4,719,000    |

|                                   |  |             |
|-----------------------------------|--|-------------|
| 316,000                           | Rottlund Company, Inc. - Minneapolis based single family home builder (a) (b) .....                    | 1,560,250   |
| 340,000                           | Schult Homes Corporation - Designs and builds manufactured homes (b) .....                             | 7,990,000   |
| 860,000                           | URS Corporation - Provides architectural and engineering services to governments (a) (b) .....         | 7,740,000   |
|                                   |  | -----       |
|                                   |  | 71,260,750  |
|                                   |  |             |
| EDUCATION - 0.0%                  |  |             |
| 405,000                           | American Educational Products, Inc. - Sells educational materials to teachers and schools (a) (b) .... | 392,364     |
|                                   |  |             |
| ENERGY & NATURAL RESOURCES - 9.9% |  |             |
| 500,000                           | 3-D Geophysical, Inc. - Three-dimensional seismic data-acquisition service (a) (b) .....               | 4,500,000   |
| 243,600                           | Abraxas Petroleum Corp. - Oil producer primarily in the Rockies and the Permian Basin, TX (a) .....    | 2,405,551   |
| 208,000                           | Alamco, Inc. - Produces oil and gas in the Appalachian Basin (a) .....                                 | 2,340,000   |
| 500,000                           | American Oilfield Divers, Inc. - Undersea construction/repair for oil and gas (a) (b) .....            | 5,937,500   |
| 800,000                           | Box Energy Corporation (Class B) - Oil and gas exploration and production company (a) .....            | 7,300,000   |
| 1,000,000                         | CHC Helicopter Corp. (Class A) - Air transport to forestry, petroleum and construction (a) (b) .....   | 4,250,000   |
| 225,000                           | Chieftain International, Inc. - Explr./dev./produces oil and natural gas in the Gulf of Mexico (a)...  | 5,850,000   |
| 500,000                           | Clayton Williams Energy, Inc. - Acquires, explores and produces oil and natural gas in TX (a) (b) .... | 8,687,500   |
| 299,000                           | Dreco Energy Services, Ltd. (Class A) - Mfrs/mkts/rents downhole machines and equipment (a) .....      | 10,950,875  |
| 560,000                           | Evergreen Resources, Inc. - Gas exploration, dev and production, primarily in CO (a) (b) .....         | 4,620,000   |
| 300,000                           | Forasol-Foramer NV - Semi-submersible operator in W. Africa and S. America (a) .....                   | 5,887,500   |
| 1,560,000                         | Forest Oil Corporation - Explrs/produces oil/gas in Gulf of Mexico and Canada (a) (b) .....            | 27,495,000  |
| 100,000                           | Hallwood Consolidated Resources Group - Owns interest in 2,000 oil and gas wells (a) (b) .....         | 6,950,000   |
| 200,000                           | Howell Corp. - Explores, produces and refines oil/natural gas and processes chemicals .....            | 2,950,000   |
| 500,000                           | Ico, Inc. - Services sucker rods for the petroleum industry .....                                      | 3,062,500   |
| 156,549                           | Mining Services International Corp. - Develops explosive chemicals for the mining industry .....       | 1,917,725   |
| 200,000                           | Offshore Logistics, Inc. - Transportation services to offshore oil exploration companies (a) .....     | 3,875,000   |
| 15,700                            | Pool Energy Services Company - Maintenance and overhauls to oil wells (a) .....                        | 241,389     |
| 460,000                           | St. Mary Land & Exploration Co. - Diversified oil and gas in North America and Russia (b) .....        | 11,442,500  |
| 200,000                           | Snyder Oil Corporation - Acquires, produces and develops domestic oil and gas properties .....         | 3,475,000   |
| 2,550,000                         | Stampeder Exploration Ltd. - Explrs, dev and produces oil and gas in Alberta/Saskatchewan (a) .....    | 14,343,750  |
| 1,400,000                         | Tesoro Petroleum Corporation - Refines, mkts and transports crude oil products (a) (b) .....           | 19,600,000  |
| 418,400                           | Tipperary Corp. - Explores, develops and produces oil and gas primarily in Australia (a) .....         | 1,935,100   |
| 100,000                           | TPC Corporation - Natural gas gathering and transmission systems (a) .....                             | 900,000     |
|                                   |  | -----       |
|                                   |  | 160,916,890 |
|                                   |  |             |
| ENVIRONMENTAL SERVICES - 1.5%     |  |             |
| 3,800,000                         | Allwaste, Inc. - Industrial waste handling, processing and transportation (a) (b) .....                | 19,475,000  |
| 372,700                           | GZA GeoEnvironmental Technologies, Inc. - Environmental consulting services (a) (b) .....              | 1,257,863   |
| 723,500                           | Vectra Technologies, Inc. - Provides products/services to nuclear facilities worldwide (a) (b) .....   | 1,447,000   |
| 550,000                           | Weston Roy F., Inc. (Class A) - Consulting, engineering and project mgt services (a) (b) .....         | 1,925,000   |
|                                   |  | -----       |
|                                   |  | 24,104,863  |

</TABLE>

HEARTLAND VALUE FUND  
SCHEDULE OF INVESTMENTS [CONT'D] - DECEMBER 31, 1996

<TABLE>  
<CAPTION>

| SHARES                    | COMMON STOCKS - 86.4% [CONT'D]   | VALUE        |
|---------------------------|--|--------------|
| <S>                       | <C>  | <C>          |
| FINANCIAL SERVICES - 4.5% |  |              |
| 322,100                   | Advest Group, Inc. - Brokerage, trading, investment banking, leasing/asset mgt (a) .....               | \$ 3,462,575 |
| 200,000                   | Atalanta/Sosnoff Capital Corp. - Provides investment management services .....                         | 1,750,000    |
| 200,000                   | Capital Factors Holdings, Inc. - Provides receivable-based commercial financing (a) .....              | 2,500,000    |
| 765,339                   | Cash America International, Inc. - Pawnshops located throughout the U.S., England and Sweden .....     | 6,505,382    |
| 350,000                   | Eaton Vance Corporation - Advisor to mutual funds .....  | 16,668,750   |
| 532,300                   | EZCorp, Inc. (Class A) - Operates pawn shops in southern U.S. (a) .....                                | 3,393,413    |
| 300,000                   | Inter-Regional Financial Group, Inc. - Full-service securities broker operating through 83 offices ... | 10,575,000   |
| 222,704                   | Kinnard Investments, Inc. - Minnesota based brokerage and investment banking firm (a) .....            | 1,280,549    |
| 580,000                   | Phoenix Duff & Phelps Corp. - Investment manager for mutual funds and institutional investors .....    | 4,132,500    |
| 500,000                   | Raymond James Financial, Inc. - Brokerage, investment banking and financial planning .....             | 15,062,500   |
| 210,000                   | Stifel Financial Corporation - Securities brokerage with 64 offices located in central U.S. ....       | 1,837,500    |
| 99,600                    | Student Loan Corporation - Originates, holds and services guaranteed student loans .....               | 3,710,100    |
| 400,000                   | Sunrise Resources, Inc. - Leasing of new/used electronic data processing equipment (a) (b) .....       | 1,350,000    |

|           |  |             |
|-----------|--|-------------|
| 110,000   | Willis Lease Finance Corporation - Operating leases of spare commercial aircraft engines (a) .....       | 1,416,250   |
|           |  | -----       |
|           |  | 73,644,519  |
|           | FOOD & BEVERAGE - 1.9%   |             |
| 344,000   | Eskimo Pie Corporation - Broad range of frozen novelty food items (b) .....                              | 3,827,000   |
| 350,000   | Grist Mill Company - Cereal, snack and confectionery products (a) (b) .....                              | 2,056,250   |
| 50,500    | Hanover Foods Corp. (Class A) - Produces and mkts prepared foods (a) (b) .....                           | 1,666,500   |
| 172,700   | International Dairy Queen, Inc. (Class A) - Operator of approx. 6,000 fast food restaurants (a) .....    | 3,454,000   |
| 700,000   | North Star Universal, Inc. - Holding co. w/interest in Michael Foods and Corvel Corp. (a) (b) .....      | 5,687,500   |
| 640,000   | Stokely USA, Inc. - A leading domestic producer of canned vegetables (a) (b) .....                       | 800,000     |
| 421,000   | Thorn Apple Valley, Inc. - Slaughters hogs; packages meat and poultry products (a) (b) .....             | 5,578,250   |
| 300,000   | Timber Lodge Steakhouse, Inc. - Owns restaurants in the Minneapolis/St. Paul area (a) (b) .....          | 1,012,500   |
| 490,000   | Todhunter International, Inc. - Citrus-based brandy, distilled spirits and fortified wine (a) (b) .....  | 4,226,250   |
| 222,600   | Vicorp Restaurants, Inc. - Operates "Bakers Square" and "Village Inn" restaurants (a) .....              | 2,949,450   |
|           |  | -----       |
|           |  | 31,257,700  |
|           | HEALTH CARE SERVICES - 11.5%   |             |
| 308,900   | Caretenders Health Corp. - Home nursing and rehabilitative services (a) (b) .....                        | 1,698,950   |
| 2,000,000 | Coastal Physicians Group, Inc. - Medical group mgt services throughout the U.S. (a) (b) .....            | 7,000,000   |
| 1,042,000 | Grancare, Inc. - Operates 80 long-term health care facilities (a) .....                                  | 18,625,750  |
| 275,000   | Health Power, Inc. - Managed health care holding company (a) (b) .....                                   | 756,250     |
| 620,000   | Hospital Staffing Services, Inc. - Interim duty medical staff to hospitals (a) (b) .....                 | 1,550,000   |
| 3,150,000 | ICN Pharmaceuticals, Inc. - Manufactures and markets a broad range of drugs (b) .....                    | 61,818,750  |
| 531,300   | Integrated Health Services, Inc. - 192 facilities providing rehabilitation/pharmacy services .....       | 12,950,438  |
| 1,133,000 | Maxicare Health Plans, Inc. - Diversified medical products manufacturer and supplier (a) (b) .....       | 25,209,250  |
| 186,666   | Meadowbrook Rehabilitation Group, Inc. (Class A) - Provides rehabilitation services (a) (b) .....        | 326,666     |
| 520,000   | Ramsay Health Care, Inc. - One of the largest psychiatric services companies (a) (b) .....               | 1,527,500   |
| 250,000   | Ramsay Managed Health Care, Inc. - Managed behavioral health services (a) .....                          | 140,625     |
| 500,000   | Regency Health Services, Inc. - Operator of California health care facilities (a) .....                  | 4,812,500   |
| 1,000,000 | RightCHOICE Managed Care, Inc. (Class A) - Offers managed health care products and services (a) (b) .... | 10,625,000  |
| 224,492   | Star Multi Care Services, Inc. - Proprietary and custodial svcs and staffing to hospitals (a) (b) .....  | 1,346,952   |
| 2,413,500 | Transitional Hospitals Corp. - Drug therapy, alcoholic rehab and occupational therapy (a) (b) .....      | 23,229,937  |
| 600,000   | United Wisconsin Services, Inc. - Group health insurance and HMO operator .....                          | 15,750,000  |
|           |  | -----       |
|           |  | 187,368,568 |
|           | HOME APPLIANCES - 0.1%   |             |
| 300,000   | Toastmaster, Inc. - U.S. producer of small electrical household appliances .....                         | 1,125,000   |

</TABLE>

HEARTLAND VALUE FUND  
SCHEDULE OF INVESTMENTS [CONT'D] - DECEMBER 31, 1996

<TABLE>  
<CAPTION>

| SHARES    | COMMON STOCKS - 86.4% [CONT'D]   | VALUE        |
|-----------|--|--------------|
| <S>       | <C>  | <C>          |
|           | INSURANCE - 8.4%   |              |
| 300,000   | American Eagle Group, Inc. - Property and casualty coverage to aviation/trucking industries .....      | \$ 1,425,000 |
| 200,000   | Amwest Insurance Group, Inc. - Underwrites a variety of surety bonds (b) .....                         | 2,700,000    |
| 500,000   | AmVestors Financial Corporation - Writer of single-premium deferred annuities .....                    | 7,375,000    |
| 200,000   | Capital RE Corporation - Specialty reinsurance esp. mortgage guaranty market .....                     | 9,325,000    |
| 200,000   | CMAC Investment Corporation - Provides private mortgage insurance coverage (b) .....                   | 7,350,000    |
| 181,200   | Delphi Financial Group, Inc. (Class A) - Underwrites life, disability and personal accident ins (a)... | 5,345,400    |
| 178,500   | FPIC Insurance Group, Inc. - Malpractice ins to doctors and dentists in southeastern U.S. (a) .....    | 2,409,750    |
| 1,020,000 | John Alden Financial Corporation - Group health, life insurance and managed care services .....        | 18,870,000   |
| 353,600   | Kaye Group, Inc. - Underwrites property and casualty insurance for small businesses (b) .....          | 1,856,400    |
| 1,000,000 | Life USA Holding Inc. - Writes, sells universal life ins and annuity products in 40 states (a) .....   | 12,000,000   |
| 220,000   | Professionals Insurance Co. Management Group - Liability ins for medical professionals (a) (b) .....   | 4,840,000    |
| 600,000   | Pioneer Financial Services, Inc. - Underwrites health, accident, life and annuities (b) .....          | 15,000,000   |
| 1,700,000 | Presidential Life Corporation - Writes annuities, whole life, universal life and term policies (b)...  | 20,506,250   |
| 548,100   | PXRE Corp. - Reinsurance products w/emphasis on commercial and personal property risk .....            | 13,565,475   |
| 250,000   | RenaissanceRe Holdings Ltd. - Property catastrophe reinsurance .....                                   | 8,187,500    |
| 71,000    | Symons International Group, Inc. - Nonstandard automobile and crop insurance (a) .....                 | 1,189,250    |
| 500,000   | Westbridge Capital Corp. - Underwrites and sells individual accident and health ins (a) (b) .....      | 4,875,000    |
|           |  | -----        |
|           |  | 136,820,025  |
|           | LEISURE - 4.3%   |              |
| 325,000   | Baldwin Piano & Organ Company - Maker of pianos and electric organs (a) (b) .....                      | 3,656,250    |
| 669,000   | Barefoot, Inc. - Residential lawn care services .....  | 10,620,375   |
| 150,000   | Buckhead America Corporation - Mortgage servicing and hotel mgt services (a) (b) .....                 | 900,000      |
| 500,000   | ERO, Inc. - Children's products marketer featuring popular licensed characters (a) .....               | 4,375,000    |

|           |   |            |
|-----------|---|------------|
| 1,350,000 | Grand Casinos, Inc. - Develops/manages land-based and dockside casinos, bingo facilities (a) .....    | 18,225,000 |
| 856,000   | Iwerks Entertainment, Inc. - Movie-based specialty theaters for out-of-home entertainment (a)(b) .... | 4,280,000  |
| 323,900   | Johnson Worldwide Associates, Inc. (Class A) - Manufactures recreational products (a) .....           | 4,291,675  |
| 200,000   | La Crosse Footwear, Inc. - Protective, industrial and recreational footwear .....                     | 2,150,000  |
| 130,000   | Marcus Corporation - Operates restaurants, theaters, hotels and motels .....                          | 2,762,500  |
| 125,000   | Matthews Int'l. Corp. (Class A) - Dsgns, mfrs and mkts custom-made identity products .....            | 3,531,250  |
| 1,100,000 | NTN Comm., Inc. - 24 hour entertainment network programming throughout U.S. (a) .....                 | 4,193,750  |
| 907,000   | Players International, Inc. - Operates casinos in regional mkts (a) .....                             | 4,875,125  |
| 200,000   | Sholodge, Inc. - Franchiser/operator of Shoney's Inn and Summer Suites hotels (a) .....               | 2,700,000  |
| 400,000   | Trimark Holdings, Inc. - Distributor of home videos and feature films (a)(b) .....                    | 2,100,000  |
| 200,000   | West Coast Entertainment Corporation - Operates and franchises video specialty stores (a) .....       | 1,750,000  |

-----  
70,410,925

MANUFACTURING - 8.3%

|           |   |            |
|-----------|---|------------|
| 1,100,000 | Alpine Group, Inc. - Mfrs industrial copper wire, cable and refractory products (a)(b) .....          | 7,562,500  |
| 650,000   | Arden Industrial Products, Inc. - National distributor of specialty and standard fasteners (a)(b).... | 3,168,750  |
| 965,000   | Astec Industries, Inc. - Dsgns, mfrs, and mkts asphalt plants, milling and paving equip (a)(b) .....  | 9,167,500  |
| 100,000   | Badger Meter, Inc. - Producer of fluid meters and flow valves (b) .....                               | 3,837,500  |
| 182,300   | Christiana Companies, Inc. - Constructs and sells pre-engineered metal buildings (a) .....            | 4,694,225  |
| 300,000   | Dakotah, Inc. - Dsgns, mfrs and mkts home fashion furnishings (a)(b) .....                            | 1,293,750  |
| 692,500   | Devlieg-Bullard, Inc. - Precision engineered machine tools (a)(b) .....                               | 1,861,094  |
| 300,000   | Encore Wire Corporation - Copper wire for commercial and residential uses (a) .....                   | 5,175,000  |
| 391,500   | Gehl Company - Agricultural and construction equipment (a)(b) .....                                   | 4,257,562  |
| 700,000   | General Chemical Group, Inc. - Mfrs and supplies inorganic chemicals .....                            | 16,537,500 |
| 152,300   | Global Industrial Technology, Inc. - Refractory products for iron and steel producers (a) .....       | 3,369,637  |
| 117,500   | Hampshire Group Ltd. - Produces classically-styled fashion sweaters (a) .....                         | 1,586,250  |
| 210,000   | Johnstown America Industries - Mfrs railroad freight cars and heavy truck components (a) .....        | 918,750    |
| 450,000   | Kentucky Electric Steel Company, Inc. - Owns and operates a mini steel mill (a)(b) .....              | 2,587,500  |
| 318,300   | Martin Industries, Inc. - Gas space heaters, gas logs, fireplaces and metal office furniture .....    | 2,307,675  |
| 300,000   | MFRI, Inc. - Manufacturer and marketer of filter bags, related parts and accessories (a)(b) .....     | 2,381,250  |
| 162,200   | Mosinee Paper Corporation - Industrial specialty and tissue paper products producer .....             | 5,758,100  |
| 153,400   | Penn Engineering & Manufacturing Corporation - Mfrs self-clinching fasteners .....                    | 3,144,700  |
| 126,000   | Pfeiffer Vacuum Technology (ADR) - Mfrs turbomolecular vacuum pumps (a) .....                         | 2,268,000  |
| 600,000   | Powell Industries, Inc. - Dsgns/mfrs/sells electrical power generation products (a)(b) .....          | 8,325,000  |

</TABLE>

HEARTLAND VALUE FUND  
SCHEDULE OF INVESTMENTS [CONT'D] - DECEMBER 31, 1996

<TABLE>  
<CAPTION>

| SHARES  | COMMON STOCKS - 86.4% [CONT'D]   | VALUE                |
|---------|--|----------------------|
| <S>     | <C>  | <C>                  |
|         | MANUFACTURING - 8.3% [cont'd.]   |                      |
| 138,500 | Reliance Steel & Aluminum Co. - Full-line distributor and processor of steel and aluminum .....        | \$ 4,847,500         |
| 300,000 | Republic Group, Inc. - Gypsum wallboard and paperboard .....   | 4,687,500            |
| 185,500 | Rexworks, Inc. - Mfrs and sells concrete and waste mgt equipment (a)(b) .....                          | 452,156              |
| 200,000 | Schnitzer Steel Ind., Inc. (Class A) - Collects and recycles steel scrap, operates steel mini-mill ... | 5,125,000            |
| 400,000 | Spartech Corporation - Producer of single and multi-layer plastic sheet .....                          | 4,450,000            |
| 250,000 | Specialty Paperboard, Inc. - Supplier of heavyweight pressboard for office supplies (a)(b) .....       | 5,000,000            |
| 590,000 | Steel of West Virginia, Inc. - Operates a steel mini-mill in Huntington, West Virginia (a)(b) .....    | 4,425,000            |
| 500,000 | Stewart & Stevenson Services, Inc. - Engine-driven power systems .....                                 | 14,562,500           |
| 219,000 | Worldtex, Inc. - Mfrs elastic yarns used in apparel (a) .....  | 1,943,625            |
|         |  | -----<br>135,695,524 |

MARKETING/CORP SERVICES - 1.4%

|         |  |                     |
|---------|--|---------------------|
| 300,000 | Cyrk Int'l., Inc. - Custom-dsgns ads to promote brand names/corporate identities (a) .....         | 3,900,000           |
| 312,500 | LCS Industries, Inc. - Provides computer related direct response marketing services (b) .....      | 4,531,250           |
| 300,000 | LSI Industries, Inc. - Outdoor, indoor and landscape lighting for commercial/industrial uses ..... | 3,975,000           |
| 250,000 | M/A/R/C, Inc. - Provides market research, database marketing and consulting services (b) .....     | 5,468,750           |
| 150,000 | Norwood Promotional Products, Inc. - Supplies custom promotional products (a) .....                | 2,737,500           |
| 457,500 | Outlook Group Corporation - Prints sports cards and product packaging materials (a)(b) .....       | 2,173,125           |
|         |  | -----<br>22,785,625 |

MEDICAL PRODUCTS - 4.6%

|         |  |            |
|---------|--|------------|
| 503,000 | Allied Healthcare Products, Inc. - Mfrs/mkts medical gas and respiratory equip. (b) .....            | 3,709,625  |
| 419,800 | Collagen Corporation - Develops biomedical devices for the treatment of tissue .....                 | 7,661,350  |
| 550,000 | Conmed Corporation - Electrosurgical systems and ECG electrodes and accessories (a) .....            | 11,275,000 |
| 585,100 | The Female Health Company - Mfrs chemical and branded consumer health products (a)(b) .....          | 2,376,968  |
| 275,000 | Gish Biomedical, Inc. - Offers devices for use in cardiovascular and orthopedic surgery (a)(b) ..... | 1,959,375  |
| 96,500  | Hauser Chemical Research, Inc. - Chem. processor, extracts/purifies ingredients for drugs (a) .....  | 566,938    |
| 416,500 | Marquette Medical Systems, Inc. (Class A) - Medical electronic monitoring manufacturer (a) .....     | 9,215,062  |

|           |   |            |
|-----------|---|------------|
| 750,000   | Matrix Pharmaceutical, Inc. - Develops new treatments for cancer and skin diseases (a) .....        | 4,593,750  |
| 243,700   | Medical Graphics Corporation - Computerized diagnostics to detect heart/lung diseases (a) (b) ..... | 1,279,425  |
| 1,200,000 | Mednet MPC Corporation - Provides pharmacy benefits mgt and prescription mail service (a) .....     | 750,000    |
| 457,500   | Minttech Corporation - Mfrs medical devices and supplies used in dialysis treatment (b) .....       | 5,261,250  |
| 128,150   | Nellcor Puritan Bennett, Inc. - Produces medical monitors and diagnostic equipment (a) .....        | 2,803,281  |
| 600,000   | OEC Medical Systems, Inc. - Mfrs computer based medical instruments (a) .....                       | 9,000,000  |
| 550,000   | Polymedica Industries, Inc. - Makes polyurethane-based drug delivery systems (a) (b) .....          | 2,096,875  |
| 400,000   | Rehabicare, Inc. - Dsgns./mfrs/mkts electromedical rehab and pain mgt products (a) (b) .....        | 1,700,000  |
| 500,000   | Scios, Inc. - Develops drugs for cardiopulmonary diseases and tissue repair (a) .....               | 3,070,300  |
| 540,000   | Sullivan Dental Products, Inc. - Consumable dental supplies and equipment to dentists (b) .....     | 7,087,500  |
|           |   | -----      |
|           |   | 74,406,699 |

RETAIL - 5.5%

|           |   |            |
|-----------|---|------------|
| 450,000   | Dairy Mart Convenience Stores, Inc. (Class A) - Operates over 800 convenience stores (a) (b) .....  | 2,025,000  |
| 800,000   | Damark International, Inc. (Class A) - Direct marketer of brand name merchandise (a) (b) .....      | 7,600,000  |
| 962,000   | Designs, Inc. - 120 specialty stores selling Levi Strauss and Boston Trader apparel (a) (b) .....   | 5,411,250  |
| 330,000   | Duckwall-ALCO Stores, Inc. - Discount retailer in small towns throughout central US (a) (b) .....   | 4,702,500  |
| 1,000,000 | Gibson Greetings, Inc. - Manufacturer and retailer of greeting cards (a) (b) .....                  | 19,625,000 |
| 200,000   | Good Guys, Inc. - Consumer electronics retailer in California (a) .....                             | 1,300,000  |
| 720,000   | Harmony Brook, Inc. - Water filtering equipment developer, mfr, distributor, operator (a) (b) ..... | 405,000    |
| 403,000   | HealthRite, Inc. - Dietary supplements, sports nutrition, personal care products (a) (b) .....      | 1,057,875  |
| 345,800   | Old America Stores, Inc. - Retailer of framing, floral, craft, decorative accent prod (a) (b) ..... | 1,858,675  |
| 600,000   | Oneita Industries, Inc. - Mfrs high quality blank T-shirts for screenprinting (a) (b) .....         | 1,050,000  |
| 430,000   | Regis Corporation - Operates hair and retail product salons .....                                   | 6,987,500  |
| 651,800   | Rhodes, Inc. - Retailer of brand-name furniture to middle-income customers (a) (b) .....            | 5,051,450  |
| 229,700   | Roberds, Inc. - Outlets of home furnishing products (a) .....                                       | 1,895,025  |
| 1,206,500 | Shopko Stores, Inc. - Discount store concentrated in the upper Midwest .....                        | 18,097,500 |
| 100,000   | Skymall, Inc. - Merchandise to airline passengers through in-flight catalogs (a) .....              | 887,500    |
| 500,000   | Sports & Recreation, Inc. - 80 "Sports Unlimited" sporting goods superstores (a) .....              | 3,875,000  |
| 366,500   | Trak Auto Corporation - Retail auto parts stores (a) (b) .....                                      | 5,405,875  |
| 40,700    | Weyco Group, Inc. - Manufacturer and retailer of quality shoes .....                                | 1,638,175  |
|           |   | -----      |
|           |   | 88,873,325 |

</TABLE>

HEARTLAND VALUE FUND  
SCHEDULE OF INVESTMENTS [CONT'D] - DECEMBER 31, 1996

<TABLE>  
<CAPTION>

| SHARES COMMON STOCKS - 86.4% [CONT'D] |  | VALUE           |
|---------------------------------------|--|-----------------|
| <S>                                   | <C>  | <C>             |
|                                       | TECHNOLOGY - 4.5%  |                 |
| 300,000                               | Align-Rite International, Inc. - Develops photomasks to produce integrated circuits (a) (b) .....    | \$ 3,300,000    |
| 300,000                               | Amtech Corporation - Hardware and software for the transportation industries (a) .....               | 1,982,820       |
| 250,000                               | BancTec, Inc. - Computerized check processing systems (a) .....                                      | 5,156,250       |
| 280,000                               | CSP, Inc. - Manufacturer of array processors to enhance computer speed (a) (b) .....                 | 2,310,000       |
| 400,000                               | Computer Products, Inc. - Dsgns and mfrs products for industrial data processing (a) .....           | 7,800,000       |
| 467,500                               | C.P. Clare Corporation - Electromagnetic and semiconductor switches and relays (a) (b) .....         | 4,675,000       |
| 885,000                               | Digital Biometrics, Inc. - Produces fingerprint recording and identification products (a) (b) .....  | 1,880,625       |
| 350,000                               | Effective Mgmt. Systems, Inc. - Dev, mfrs, services integrated business mgt software (a) (b) .....   | 2,012,500       |
| 300,000                               | Esterline Technologies Corporation - Aerospace/defense and instrumentation products (a) .....        | 7,837,500       |
| 700,000                               | FSI International, Inc. - Manufacture of semiconductor equipment (a) .....                           | 10,500,000      |
| 700,000                               | IEC Electronics Corporation - Complex printed circuit boards and electronic products (a) (b) .....   | 5,775,000       |
| 144,200                               | Mizar, Inc. - Computer subsystems used in real-time image processing (a) .....                       | 702,975         |
| 1,000,000                             | Netframe Systems, Inc. - Produces specialized systems for local area networks (a) (b) .....          | 2,562,500       |
| 250,000                               | Nu Horizons Electronics, Inc. - Distributes memory chips, microprocessors, related prod (a) .....    | 1,984,375       |
| 237,000                               | Pacific Scientific Company - Mfrs electrical and safety equipment .....                              | 2,666,250       |
| 360,000                               | Peak Technologies Group, Inc. - Bar code data collection equip and systems distributor (a) .....     | 4,320,000       |
| 562,000                               | Quixote Corporation - Legal technologies and highway crash barriers (b) .....                        | 5,409,250       |
| 500,000                               | Technology Research Corporation - Control/measurement devices for electric power dist (b) .....      | 2,250,000       |
|                                       |  | -----           |
|                                       |  | 73,125,045      |
|                                       | TRANSPORTATION - 0.8%  |                 |
| 600,000                               | Amtran, Inc. - Provides charter and selective scheduled air services to leisure travelers (a) (b) .. | 4,200,000       |
| 212,000                               | Marten Transport, Ltd. - Refrigerated long-haul motor carrier (a) (b) .....                          | 2,915,000       |
| 264,000                               | MTL, Inc. - Transports industrial chemicals and bulk food products by tank truck (a) (b) .....       | 5,346,000       |
| 500,000                               | Tower Air, Inc. - Long-haul scheduled and charter passenger air services .....                       | 1,343,750       |
|                                       |  | -----           |
|                                       |  | 13,804,750      |
|                                       | TOTAL COMMON STOCKS (Cost \$1,136,414,937) .....   | \$1,404,951,369 |



| SHARES  | PREFERRED STOCK - 0.3%  | VALUE        |
|---------|---|--------------|
| 728,600 | HOME APPLIANCES - 0.3%<br>Fedders Corp. 6.25% convertible - Room air conditioner manufacturer ..... | \$ 4,371,600 |
|         | TOTAL PREFERRED STOCK (Cost \$2,013,686) .....  | \$ 4,371,600 |

<CAPTION>

| PAR AMOUNT  | CONVERTIBLE BONDS - 0.3%  | COUPON | MATURITY   | VALUE        |
|-------------|---|--------|------------|--------------|
| <S>         | <C>   | <C>    | <C>        | <C>          |
| \$1,250,000 | AEROSPACE - 0.1%<br>Mercury Air Group, Inc. - Ground support services<br>to commercial airlines and U.S. military (b) ..... | 7.750% | 02/01/2006 | \$ 1,243,750 |
| 400,000     | BANKS AND SAVINGS & LOANS - 0.1%<br>Fort Bend Holding Corporation - S & L holding company with<br>four retail offices ..... | 8.000  | 12/01/2005 | 449,500      |
| 1,000,000   | Professional Bancorp - Five full service offices in<br>CA targeting professionals .....                                     | 8.500  | 03/01/2004 | 995,000      |
|             |   |        |            | 1,444,500    |
| 1,000,000   | HEALTH CARE SERVICES - 0.0%<br>ICN Pharmaceuticals, Inc. - Manufactures and markets a broad<br>range of drugs .....         | 8.500  | 11/15/1999 | 1,085,000    |
| 1,558,000   | TECHNOLOGY - 0.1%<br>Quixote Corporation - Legal technologies and<br>highway crash barriers (b) .....                       | 8.000  | 04/15/2011 | 1,371,040    |
|             | TOTAL CONVERTIBLE BONDS (Cost \$4,973,378) .....  |        |            | \$ 5,144,290 |

</TABLE>

33

52

HEARTLAND VALUE FUND  
SCHEDULE OF INVESTMENTS [CONT'D] - DECEMBER 31, 1996

<TABLE>

<CAPTION>

| PAR AMOUNT   | CORPORATE BONDS - 0.4%   | COUPON  | MATURITY   | VALUE        |
|--------------|--|---------|------------|--------------|
| <S>          | <C>  | <C>     | <C>        | <C>          |
| \$ 6,905,000 | CONSTRUCTION/HOUSING - 0.4%<br>Engle Homes, Inc. - Florida home builder and developer..... | 11.750% | 12/15/2000 | \$ 6,939,525 |
|              | TOTAL CORPORATE BONDS (Cost \$6,623,276) .....   |         |            | \$ 6,939,525 |

| PAR AMOUNT    | U.S. GOVERNMENT SECURITIES - 3.0%                          | COUPON | MATURITY   | VALUE         |
|---------------|--|--------|------------|---------------|
| \$ 50,000,000 | U.S. Treasury Note .....                                   | 5.875% | 08/15/1998 | \$ 49,937,500 |
|               | TOTAL U.S. GOVERNMENT SECURITIES (Cost \$49,824,213) ..... |        |            | \$ 49,937,500 |

| PAR AMOUNT    | SHORT-TERM INVESTMENTS - 4.8%   | COUPON | MATURITY   | VALUE         |
|---------------|---|--------|------------|---------------|
| \$ 27,500,000 | U.S. TREASURY SECURITIES - 4.8%<br>U.S. Treasury Bill .....           | 0.000% | 02/27/1997 | \$ 27,284,055 |
| 50,000,000    | U.S. Treasury Note .....  | 6.500% | 05/15/1997 | 50,156,250    |
|               |   |        |            | 77,440,305    |
| 362,000       | VARIABLE RATE DEMAND NOTES (+) - 0.0%<br>Warner-Lambert Company ..... | 5.479% | 03/18/1997 | 362,000       |

|  |        |                 |
|--|--------|-----------------|
| TOTAL SHORT-TERM INVESTMENTS (Cost \$77,780,376) ..... |        | \$ 77,802,305   |
| TOTAL INVESTMENTS - (Cost \$1,277,629,866) .....       | 95.2%  | \$1,549,146,589 |
| Cash and receivables, less liabilities .....           | 4.8%   | 77,613,247      |
| TOTAL NET ASSETS .....                                 | 100.0% | \$1,626,759,836 |

</TABLE>

- (a) Non-income producing security.
- (b) Affiliated company. See Note 7 in Notes to Financial Statements.
- (+) Variable rate demand notes are considered short-term obligations and are payable on demand. Interest rates change periodically on specified dates. The rate listed is as of December 31, 1996.

The accompanying Notes to Financial Statements are an integral part of this Schedule.

HEARTLAND VALUE FUND  
STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 1996

<TABLE>

|  |                 |
|--|-----------------|
| <S>  | <C>             |
| ASSETS:  |                 |
| Investments in securities, at value (Cost \$1,277,629,866) .....   | \$1,549,146,589 |
| Receivable from investments sold short .....   | 79,327,687      |
| Deposits with brokers for investments sold short .....   | 1,533,985       |
| Receivable from fund shares sold .....   | 1,975,729       |
| Receivable from options contracts written .....  | 111,328         |
| Accrued dividends and interest .....   | 2,879,457       |
| Total Assets .....   | 1,634,974,775   |
| LIABILITIES:   |                 |
| Payable for investments purchased .....  | 3,520,413       |
| Payable for fund shares redeemed .....   | 1,562,132       |
| Options contracts written, at value (Premiums \$111,328) .....   | 12,500          |
| Payable to custodian .....   | 1,569,316       |
| Distributions payable .....  | 6,814           |
| Payable to Advisor for management fee .....  | 1,027,495       |
| Accrued expenses .....   | 516,269         |
| Total Liabilities .....  | 8,214,939       |
| NET ASSETS APPLICABLE TO OUTSTANDING SHARES<br>(\$ .001 par value, 100,000,000 shares authorized, 51,400,775 shares outstanding).. | 1,626,759,836   |
| NET ASSET VALUE PER SHARE .....  | \$ 31.65        |

</TABLE>

STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 1996

<TABLE>

|                                   |               |
|-----------------------------------|---------------|
| <S>                               | <C>           |
| INVESTMENT INCOME:                |               |
| Interest .....                    | \$ 13,667,971 |
| Dividends .....                   | 7,545,098     |
| Total investment income .....     | 21,213,069    |
| EXPENSES:                         |               |
| Management fees .....             | 10,877,255    |
| Distribution expense .....        | 3,625,752     |
| Transfer agent fees .....         | 1,716,119     |
| Postage .....                     | 459,646       |
| Registration fees .....           | 367,825       |
| Custodian fees .....              | 298,983       |
| Printing and communications ..... | 210,900       |
| Audit Fees .....                  | 40,303        |

|  |                |
|--|----------------|
| Legal fees .....   | 11,686         |
| Directors' fees .....  | 6,578          |
| Other operating expenses .....                               | 396,735        |
|  | -----          |
| Total expenses .....   | 18,011,782     |
|  | -----          |
| NET INVESTMENT INCOME .....                                  | 3,201,287      |
|  | -----          |
| REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS:       |                |
| Net realized gains (losses) on:                              |                |
| Long sales .....   | 98,754,941     |
| Short sales .....  | (6,037)        |
| Futures contracts .....                                      | 2,633,917      |
| Net increase in unrealized appreciation on investments ..... | 167,734,490    |
|  | -----          |
| TOTAL REALIZED AND UNREALIZED GAINS ON INVESTMENTS .....     | 269,117,311    |
|  | -----          |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS .....   | \$ 272,318,598 |
|  | =====          |

</TABLE>

The accompanying Notes to Financial Statements are an integral part of these Statements.

35

54

HEARTLAND VALUE FUND  
STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>  
<CAPTION>

|   | FOR THE YEAR ENDED<br>DECEMBER 31, |                 |
|---|------------------------------------|-----------------|
|   | 1996                               | 1995            |
|   | -----                              | -----           |
| <S>   | <C>                                | <C>             |
| OPERATIONS:   |                                    |                 |
| Net investment income.....  | \$ 3,201,287                       | \$ 5,278,676    |
| Net realized gains on investments.....  | 101,382,821                        | 56,744,275      |
| Net increase in unrealized appreciation on investments.....   | 167,734,490                        | 135,718,470     |
|   | -----                              | -----           |
| Net increase in net assets resulting from operations.....   | 272,318,598                        | 197,741,421     |
| DISTRIBUTIONS TO SHAREHOLDERS FROM:   |                                    |                 |
| Net investment income.....  | (3,201,287)                        | (5,278,676)     |
| Net realized gains on investments.....  | (101,601,571)                      | (56,744,275)    |
|   | -----                              | -----           |
| Total distributions to shareholders.....  | (104,802,858)                      | (62,022,951)    |
| FUND SHARE ACTIVITIES:  |                                    |                 |
| Proceeds from shares issued (15,865,977 and 31,485,987 shares, respectively)..  | 482,657,821                        | 818,599,002     |
| Reinvested dividends from net investment income and distributions from net realized gains on investments (2,886,369 and 2,044,105 shares, respectively) | 90,283,401                         | 56,699,525      |
| Cost of shares redeemed (9,964,582 and 5,853,677 shares, respectively).....   | (304,623,134)                      | (159,455,377)   |
|   | -----                              | -----           |
| Net increase in net assets derived from Fund share activities.....  | 268,318,088                        | 715,843,150     |
|   | -----                              | -----           |
| TOTAL INCREASE IN NET ASSETS.....   | 435,833,828                        | 851,561,620     |
| NET ASSETS AT THE BEGINNING OF THE YEAR.....  | 1,190,926,008                      | 339,364,388     |
|   | -----                              | -----           |
| NET ASSETS AT THE END OF THE YEAR.....  | \$1,626,759,836                    | \$1,190,926,008 |
|   | =====                              | =====           |

</TABLE>

FINANCIAL HIGHLIGHTS

<TABLE>  
<CAPTION>

|   | 1996     | FOR THE YEAR ENDED DECEMBER 31, |          |          |         |
|---|----------|---------------------------------|----------|----------|---------|
|   |          | 1995                            | 1994     | 1993     | 1992    |
|   | -----    | -----                           | -----    | -----    | -----   |
| <S>                                     | <C>      | <C>                             | <C>      | <C>      | <C>     |
| SELECTED PER SHARE DATA                 |          |                                 |          |          |         |
| Net asset value, beginning of year..... | \$ 27.95 | \$ 22.72                        | \$ 23.22 | \$ 20.41 | \$16.06 |
| Income from investment operations:      |          |                                 |          |          |         |
| Net investment income (loss).....       | 0.06     | 0.13                            | (0.09)   | (0.12)   | (0.09)  |

|   |          |          |          |          |         |
|---|----------|----------|----------|----------|---------|
| Net realized and unrealized gains on investments..... | 5.78     | 6.63     | 0.47     | 3.95     | 6.91    |
| Total income from investment operations.....          | 5.84     | 6.76     | 0.38     | 3.83     | 6.82    |
| Less distributions from:                              |          |          |          |          |         |
| Net investment income.....                            | (0.06)   | (0.13)   | --       | --       | --      |
| Net realized gains on investments.....                | (2.08)   | (1.40)   | (0.88)   | (1.02)   | (2.47)  |
| Total distributions.....                              | (2.14)   | (1.53)   | (0.88)   | (1.02)   | (2.47)  |
| Net asset value, end of year.....                     | \$ 31.65 | \$ 27.95 | \$ 22.72 | \$ 23.22 | \$20.41 |
| TOTAL RETURN(1) .....                                 | 21.0%    | 29.8%    | 1.7%     | 18.8%    | 42.5%   |

RATIOS AND SUPPLEMENTAL DATA

|  |             |             |           |           |          |
|--|-------------|-------------|-----------|-----------|----------|
| Net assets, end of year (in thousands).....                      | \$1,626,760 | \$1,190,926 | \$339,364 | \$186,518 | \$48,391 |
| Ratio of expenses to average net assets.....                     | 1.23%       | 1.29%       | 1.39%     | 1.51%     | 1.48%    |
| Ratio of net investment income (loss) to average net assets..... | 0.22%       | 0.61%       | (0.52)%   | (0.71)%   | (0.49)%  |
| Portfolio turnover rate.....                                     | 31%         | 31%         | 35%       | 51%       | 76%      |
| Average commission per share (2).....                            | \$ 0.0530   | N/A         | N/A       | N/A       | N/A      |

</TABLE>

(1) The contingent deferred and initial sales charges in effect for the Fund prior to June 1, 1994 are not reflected in Total Return as set forth in the table.

(2) Disclosure of average commission per share was not required prior to the year ended December 31, 1996.

The accompanying Notes to Financial Statements are an integral part of these Statements.

HEARTLAND MID CAP VALUE FUND  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 1996

<TABLE>  
<CAPTION>

| SHARES | COMMON STOCKS - 91.4%  | VALUE      |
|--------|--|------------|
| <S>    | <C>  | <C>        |
|        | AUTOMOTIVE - 1.7%  |            |
| 4,000  | A. O. Smith Corporation - Makes auto frames, motors, water heaters and other misc. items.....  | \$ 119,500 |
|        | BANKS AND SAVINGS & LOANS - 12.1%  |            |
| 2,800  | Commercial Federal Corporation - S & L serving Nebraska, Colorado, Kansas and Oklahoma.....    | 134,400    |
| 3,000  | Cullen/Frost Bankers, Inc. - Bank holding company in Texas.....                                | 99,750     |
| 5,000  | First Financial Corporation - Charleston, SC area S & L.....                                   | 122,500    |
| 8,000  | Hibernia Corporation (Class A) - Bank holding company in Louisiana.....                        | 106,000    |
| 3,600  | Signet Banking Corporation - Bank holding company in VA, MD and DC.....                        | 110,700    |
| 9,500  | Sovereign Bancorp, Inc. - S & L holding company in PA, NJ and DE.....                          | 124,688    |
| 4,000  | TR Financial Corp. - Invests deposits in one to four family residential properties.....        | 142,000    |
|        |  | 840,038    |
|        | BUILDING PRODUCTS - 2.4%   |            |
| 3,000  | Medusa Corporation - Produces cement and stone.....  | 103,125    |
| 1,200  | Texas Industries, Inc. - Produces steel and construction materials, including cement.....      | 60,750     |
|        | CHEMICALS - 2.5%   | 163,875    |
| 5,500  | Agrium, Inc. - Manufacturer and distributor of fertilizers.....                                | 75,625     |
| 6,500  | Terra Industries, Inc. - Produces nitrogen fertilizer, crop protection chemicals and seed..... | 95,875     |
|        |  | 171,500    |
|        | CONSTRUCTION/HOUSING - 4.1%  |            |
| 1,100  | Pulte Corporation - Holding company for home-building and financial service cos.....           | 33,825     |
| 1,600  | Fleetwood Enterprises, Inc. - Produces recreational vehicles and manufactured housing.....     | 44,000     |
| 4,500  | Lennar Corporation - Builds single family homes; builds and manages rental units.....          | 122,625    |
| 4,300  | Toll Brothers, Inc. - Designs, builds, markets, and finances single-family homes (a).....      | 83,850     |
|        |  | 284,300    |
|        | CONSUMER PRODUCTS - 3.2%   |            |

|        |   |         |
|--------|---|---------|
| 3,000  | First Brands Corporation - Mfrs and sells products for the home and automobile markets.....         | 85,125  |
| 8,000  | Wellman, Inc. - Mfrs high-quality "Fortel" polyester textile fibers; related products.....          | 137,000 |
|        |   | -----   |
|        |   | 222,125 |
|        | DIVERSIFIED OPERATIONS - 2.1%   |         |
| 10,000 | Onex Corporation - In-flight catering, food service dist., auto steel parts and brakes.....         | 142,284 |
|        | ENERGY & NATURAL RESOURCES - 5.0%   |         |
| 2,500  | Asarco, Inc. - Mines zinc; produces copper, lead and silver.....                                    | 62,188  |
| 12,400 | Ranger Oil Ltd. - Explores for and produces oil and natural gas.....                                | 122,450 |
| 4,000  | Santa Fe Pacific Gold Corporation - Explores for, develops gold properties/mines; processes ore.... | 61,500  |
| 7,000  | TransTexas Gas Corporation - Explores for, produces and transmits natural gas primarily in TX (a).. | 101,500 |
|        |   | -----   |
|        |   | 347,638 |
|        | FINANCIAL SERVICES - 5.0%   |         |
| 6,000  | Lehman Brothers Holdings, Inc. - Worldwide investment banking and brokerage services.....           | 188,250 |
| 4,000  | Olympic Financial Ltd. - Buys, sells and services retail installment contracts for cars (a).....    | 57,500  |
| 2,400  | PHH Corporation - Provides cost-effective vehicle and home-related services.....                    | 103,200 |
|        |   | -----   |
|        |   | 348,950 |
|        | FOOD & BEVERAGE - 6.0%  |         |
| 12,000 | Darden Restaurants, Inc. - Operates "Red Lobster," "Bahama Breeze" and "The Olive Garden".....      | 105,000 |
| 3,500  | Dean Foods Company - Buys, processes and distributes dairy and specialty food products.....         | 112,875 |
| 4,700  | IBP Inc. - Produces fresh/boxed beef/pork products; treats hides for leather.....                   | 113,975 |
| 3,000  | SUPERVALU, Inc. - Food distributor; operator of grocery stores.....                                 | 85,125  |
|        |   | -----   |
|        |   | 416,975 |
|        | FOREST PRODUCTS - 3.5%  |         |
| 3,900  | Boise Cascade Corporation - Mfrs paper products and building products; owns timberland.....         | 123,825 |
| 2,500  | Bowater, Inc. - Produces paper and lumber.....  | 94,063  |
| 1,500  | P. H. Glatfelter Company - Mfrs paper and manages woodlands.....                                    | 27,000  |
|        |   | -----   |
|        |   | 244,888 |
|        | HEALTH CARE SERVICES - 8.9%   |         |
| 1,000  | Allegiance Corporation - Provides healthcare products and cost management services.....             | 27,625  |
| 10,000 | HealthPlan Services Corporation - Managed health care services company (a).....                     | 211,250 |
| 5,000  | Integrated Health Services, Inc. - 192 facilities providing rehabilitation/pharmacy services.....   | 121,875 |
| 7,400  | Sun Healthcare Group, Inc. - Provides nursing, rehabilitation therapy, other specialized care (a).. | 99,900  |
| 4,500  | Wellpoint Health Networks, Inc. - Managed health care company (a).....                              | 154,688 |
|        |   | -----   |
|        |   | 615,338 |

</TABLE>

HEARTLAND MID CAP VALUE FUND  
SCHEDULE OF INVESTMENTS [CONT'D] o DECEMBER 31, 1996

| <TABLE> |   | <CAPTION>                      |  |            |
|---------|---|--------------------------------|--|------------|
| SHARES  |   | COMMON STOCKS - 91.4% [CONT'D] |  | VALUE      |
| <S>     |   | <C>                            |  | <C>        |
|         |   | INSURANCE - 10.4%              |  |            |
| 4,500   | Horace Mann Educators Corp. - Insurance provider to primarily public school employees .....             |                                |  | \$ 181,688 |
| 3,000   | Mid Ocean Ltd. - Reinsurance provider .....   |                                |  | 157,500    |
| 700     | Ohio Casualty Corporation - Offers full line of property and casualty insurance .....                   |                                |  | 24,850     |
| 3,000   | Protective Life Corporation - Produces, distributes, services insurance/investment products .....       |                                |  | 119,625    |
| 12,000  | Reliance Group Holdings, Inc. - Property, casualty and title insurance; diversified inv.; real estate . |                                |  | 109,500    |
| 4,000   | Vesta Insurance Group, Inc. - Property and casualty insurance group .....                               |                                |  | 125,500    |
|         |   |                                |  | -----      |
|         |   |                                |  | 718,663    |
|         |   | LEISURE - 0.6%                 |  |            |
| 3,000   | Grand Casinos, Inc. - Develops/manages land-based and dockside casinos, bingo facilities (a) .....      |                                |  | 40,500     |
|         |   | MANUFACTURING - 11.3%          |  |            |
| 7,000   | AGCO Corporation - Mfr/dist agricultural and related replacement parts worldwide .....                  |                                |  | 200,375    |
| 3,000   | A K Steel Holding Corporation - Integrated steel producer .....   |                                |  | 118,875    |
| 1,000   | Armco, Inc. - Produces electrical and stainless steels and steel products (a) .....                     |                                |  | 4,125      |
| 3,400   | Blount Int'l, Inc. (Class A) - Mfrs outdoor products, industrial, power and sporting equipment .....    |                                |  | 130,475    |
| 1,400   | Cummins Engine Company, Inc. - Mfrs heavy-duty and midrange diesel engines .....                        |                                |  | 64,400     |
| 1,800   | La-Z-Boy, Inc. - Mfr of residential and office furniture .....  |                                |  | 53,100     |

|        |   |              |
|--------|---|--------------|
| 2,000  | McDermott International, Inc. - Worldwide energy services company .....                                 | 33,250       |
| 500    | Navistar International Corp. - Mfrs medium/heavy diesel trucks and midrange diesel engines (a) .....    | 4,563        |
| 4,000  | Stewart & Stevenson Services, Inc. - Engine-driven power systems .....                                  | 116,500      |
| 1,000  | Tecumseh Products Company - Mfrs refrigeration products, small gas engines, gear drives, pumps .....    | 57,375       |
|        |   | -----        |
|        |   | 783,038      |
|        | REITS - 0.7%  |              |
| 2,000  | Walden Residential Properties, Inc. - Garden apts in OK, FL, AZ, TX, UT and TN .....                    | 49,750       |
|        | RETAIL - 2.3%   |              |
| 10,000 | Heilig Meyers Company - Retailer of home furnishings .....  | 162,500      |
|        | TECHNOLOGY - 6.1%   |              |
| 4,000  | Advanced Micro Devices, Inc. - Designs, develops, manufactures, and markets integrated circuits (a) ... | 103,000      |
| 2,000  | Auspex Systems Inc. - Develops, mfrs, and markets a line of UNIX/NFS file servers (a) .....             | 23,250       |
| 5,000  | National Semiconductor Corp. - Designs, develops, mfrs and mkts semiconductor products (a) .....        | 121,875      |
| 3,300  | MEMC Electronic Materials, Inc. - Produces silicon wafers used in semiconductors (a) .....              | 74,250       |
| 4,000  | Teradyne, Inc. - Mfrs electronic systems/connection systems and software (a) .....                      | 97,500       |
|        |   | -----        |
|        |   | 419,875      |
|        | UTILITIES - 3.5%  |              |
| 3,500  | Oklahoma Gas & Electric Company - Generates, transmits and distributes electricity in OK and AK .....   | 146,122      |
| 5,000  | Public Service Co. of New Mexico - Operates electric, gas, and water utilities in NM .....              | 98,125       |
|        |   | -----        |
|        |   | 244,247      |
|        |   | -----        |
|        | TOTAL COMMON STOCKS (Cost \$6,002,710) .....  | \$ 6,335,984 |

</TABLE>

<TABLE>  
<CAPTION>

| PAR     | SHORT-TERM INVESTMENTS - 7.5%                       | COUPON | MATURITY   | VALUE        |
|---------|---|--------|------------|--------------|
| <S>     | <C>   | <C>    | <C>        | <C>          |
|         | VARIABLE RATE DEMAND NOTES (+) -7.5%                |        |            |              |
| 220,000 | Sara Lee Corporation .....                          | 5.467% | 05/02/1997 | \$ 220,000   |
| 300,000 | Warner-Lambert Company .....                        | 5.479  | 03/18/1997 | 300,000      |
|         |   |        |            | -----        |
|         | TOTAL SHORT-TERM INVESTMENTS (Cost \$520,000) ..... |        |            | \$ 520,000   |
|         | TOTAL INVESTMENTS - (Cost \$6,522,710) .....        | 98.9%  |            | \$ 6,855,984 |
|         | Cash and receivables, less liabilities .....        | 1.1%   |            | 77,978       |
|         |   | -----  |            | -----        |
|         | TOTAL NET ASSETS                                    | 100.0% |            | \$ 6,933,962 |
|         |   | =====  |            | =====        |

</TABLE>

(a) Non-income producing security.

(+) Variable rate demand notes are considered short-term obligations and are payable on demand. Interest rates change periodically on specified dates. The rates listed are as of December 31, 1996.

The accompanying Notes to Financial Statements are an integral part of this Schedule.

HEARTLAND MID CAP VALUE FUND  
STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 1996

| <S>  | <C>         |
|--|-------------|
| ASSETS:  |             |
| Investments in securities, at value (Cost \$6,522,710) ..... | \$6,855,984 |
| Cash .....   | 2,478       |
| Receivable from fund shares sold .....                       | 79,334      |
| Accrued dividends and interest .....                         | 8,831       |

|  |             |
|--|-------------|
| Deferred organization expense .....  | 15,607      |
| Total Assets .....   | 6,962,234   |
| LIABILITIES:   |             |
| Payable to Advisor for management fee .....  | 3,838       |
| Payable to Advisor for deferred organization expense .....                         | 15,607      |
| Accrued expenses .....   | 8,827       |
| Total Liabilities .....  | 28,272      |
| NET ASSETS APPLICABLE TO OUTSTANDING SHARES  |             |
| (\$ .001 par value, 100,000,000 shares authorized, 650,201 shares outstanding) ... | \$6,933,962 |
| NET ASSET VALUE PER SHARE .....  | \$ 10.66    |

</TABLE>

STATEMENT OF OPERATIONS  
FOR THE PERIOD OCTOBER 11, 1996 (COMMENCEMENT OF OPERATIONS)  
TO DECEMBER 31, 1996

<TABLE>  
<CAPTION>

|   |           |
|---|-----------|
| INVESTMENT INCOME:  |           |
| <S>   | <C>       |
| Dividends .....   | \$ 10,834 |
| Interest .....  | 7,546     |
| Total investment income .....                             | 18,380    |
| EXPENSES:   |           |
| Management fees .....                                     | 6,087     |
| Distribution fees .....                                   | 2,029     |
| Audit fees .....  | 5,500     |
| Transfer agent fees .....                                 | 3,699     |
| Custodian fees .....                                      | 844       |
| Amortization of organization expenses .....               | 821       |
| Registration fees .....                                   | 788       |
| Legal fees .....  | 189       |
| Postage .....   | 69        |
| Total expenses .....                                      | 20,026    |
| NET INVESTMENT LOSS .....                                 | (1,646)   |
| REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS:    |           |
| Net realized losses on investments .....                  | (3,604)   |
| Net increase in unrealized appreciation on investments... | 333,274   |
| TOTAL REALIZED AND UNREALIZED GAINS ON INVESTMENTS .....  | 329,670   |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS .... | \$328,024 |

</TABLE>

The accompanying Notes to Financial Statements are an integral part of these Statements.

HEARTLAND MID CAP VALUE FUND  
STATEMENT OF CHANGES IN NET ASSETS

<TABLE>  
<CAPTION>

OCT. 11, 1996  
(COMMENCEMENT  
OF OPERATIONS) TO

| <S>  | <C>          |
|--|--------------|
| OPERATIONS:  |              |
| Net investment loss .....  | \$ (1,646)   |
| Net realized losses on investments .....                               | (3,604)      |
| Net increase in unrealized appreciation on investments .....           | 333,274      |
|  | -----        |
| Net increase in net assets resulting from operations .....             | 328,024      |
|  | -----        |
| FUND SHARE ACTIVITIES:   |              |
| Proceeds from shares issued (662,589 shares) .....                     | 6,732,455    |
| Cost of shares redeemed (12,388 shares) .....                          | (126,517)    |
|  | -----        |
| Net increase in net assets derived<br>from Fund share activities ..... | 6,605,938    |
|  | -----        |
| TOTAL INCREASE IN NET ASSETS .....                                     | 6,933,962    |
| NET ASSETS AT THE BEGINNING OF THE PERIOD .....                        | ---          |
|  | -----        |
| NET ASSETS AT THE END OF THE PERIOD .....                              | \$ 6,933,962 |
|  | =====        |

&lt;/TABLE&gt;

## FINANCIAL HIGHLIGHTS

| <TABLE><br><CAPTION>                                     | OCT. 11, 1996(1)<br>THROUGH<br>DEC. 31, 1996 |
|--|--|
| <S>  | <C>  |
| SELECTED PER SHARE DATA                                  |  |
| Net asset value, beginning of period .....               | \$ 10.00                                     |
| Income from investment operations:                       |  |
| Net investment income .....                              | --   |
| Net realized and unrealized gains on investments .....   | 0.66   |
|  | -----  |
| Total income from investment operations .....            | 0.66   |
|  | -----  |
| LESS DISTRIBUTIONS FROM:                                 |  |
| Net investment income .....                              | --   |
| Net realized gains on investments .....                  | --   |
|  | -----  |
| Total distributions .....                                | --   |
| Net asset value, end of period .....                     | \$ 10.66                                     |
|  | =====  |
| TOTAL RETURN .....                                       | 6.6% (2)                                     |
| RATIOS AND SUPPLEMENTAL DATA                             |  |
| Net assets, end of period (in thousands) .....           | \$ 6,934                                     |
| Ratio of expenses to average net assets .....            | 1.94% (3)                                    |
| Ratio of net investment loss to average net assets ..... | (0.16%) (3)                                  |
| Portfolio turnover rate .....                            | 4%   |
| Average commission per share .....                       | \$ 0.0675                                    |

&lt;/TABLE&gt;

- (1) Commencement of operations.  
(2) Not annualized.  
(3) Annualized.

The accompanying Notes to Financial Statements are an integral part of these Statements.

<TABLE>  
<CAPTION>



| <S>   | <C>   | <C>       |
|-------|---|-----------|
|       | AIR FREIGHT - 1.3%  |           |
| 700   | Federal Express Corporation - Transports freight by air for overnight delivery (a) .....        | \$ 31,150 |
|       | BANKS AND SAVINGS & LOANS - 5.3%  |           |
| 400   | Chase Manhattan Corp. - Corporate finance, wholesale banking, investment services .....         | 35,700    |
| 600   | PNC Bank Corporation - Consumer, corporate, mortgage, and real estate banking .....             | 22,575    |
| 1,100 | Summit Bancorp - Commercial, retail, mortgage banking and investment mgt services .....         | 48,125    |
| 600   | Union Planters Corporation - Banking and broker/dealer services through 402 offices .....       | 23,400    |
|       |   | -----     |
|       |   | 129,800   |
|       | COMMUNICATIONS - 4.5%   |           |
| 1,400 | AT & T Corporation - Communication service and product provider .....                           | 60,900    |
| 2,200 | Frontier Corporation - National long distance telecom. provider .....                           | 49,775    |
|       |   | -----     |
|       |   | 110,675   |
|       | CONSTRUCTION/HOUSING - 1.4%   |           |
| 1,600 | Louisiana-Pacific Corporation - Produces lumber and building products; owns 1,585,000 acres ... | 33,800    |
|       | DIVERSIFIED OPERATIONS - 1.2%   |           |
| 300   | Textron, Incorporated - Helicopters, combat vehicles, auto parts and missile reentry systems .. | 28,275    |
|       | ELECTRICAL & ELECTRONICS - 2.0%   |           |
| 1,200 | Philips Electronics N.V. - Consumer electronics, medical products and comm. systems .....       | 48,000    |
|       | ENERGY & NATURAL RESOURCES - 4.9%   |           |
| 1,200 | Elf Aquitaine (ADR) - Explores, refines, and markets petroleum and related products .....       | 54,300    |
| 2,600 | YPF Sociedad Anonima (ADR) - Integrated oil and gas company .....                               | 65,650    |
|       |   | -----     |
|       |   | 119,950   |
|       | FINANCIAL SERVICES - 4.1%   |           |
| 800   | Lehman Brothers Holdings, Inc. - Worldwide investment banking and brokerage services .....      | 25,100    |
| 800   | Student Loan Marketing Association - Purchases and services student loans .....                 | 74,500    |
|       |   | -----     |
|       |   | 99,600    |
|       | FOOD & BEVERAGE - 4.6%  |           |
| 6,400 | Darden Restaurants, Inc. - Operates "Red Lobster," "Bahama Breeze" and "The Olive Garden" ..... | 56,000    |
| 600   | Guinness PLC (ADR) - Distills/ brews and markets Guinness beer .....                            | 23,487    |
| 1,200 | SUPERVALU, Inc. - Food distributor; operator of grocery stores .....                            | 34,050    |
|       |   | -----     |
|       |   | 113,537   |
|       | HEALTH CARE SERVICES - 8.1%   |           |
| 600   | Aetna, Inc. - Health and life ins for individuals and employer-sponsored groups .....           | 48,000    |
| 5,500 | Beverly Enterprises - Nursing care facilities, home health care and retirement housing (a) .... | 70,125    |
| 3,600 | Tenet Healthcare Corporation - Operate more than 75 acute care hospitals (a) .....              | 78,750    |
|       |   | -----     |
|       |   | 196,875   |
|       | HOME FURNISHINGS - 2.9%   |           |
| 6,000 | Shaw Industries, Inc. - Manufactures tufted carpet for residential and commercial use .....     | 70,500    |
|       | INSURANCE - 11.9%   |           |
| 1,800 | Allmerica Financial Corporation - Insurance and financial services provider .....               | 60,300    |
| 1,100 | Allmerica Property & Casualty Companies, Inc. - Underwrites property-liability insurance .....  | 33,413    |
| 900   | American General Corporation - Provides life insurance, annuities and consumer loans .....      | 36,787    |
| 800   | Jefferson-Pilot Corporation - Writes annuity policies, and life, accident, and health ins ..... | 45,300    |
| 1,300 | Ohio Casualty Corporation - Offers full line of property and casualty insurance .....           | 46,150    |
| 600   | St. Paul Companies, Inc. - Worldwide provider of property-liability insurance .....             | 35,175    |
| 1,600 | USF & G Corporation - Commercial, family, business, specialty business, and life ins .....      | 33,400    |
|       |   | -----     |
|       |   | 290,525   |
|       | MANUFACTURING - 2.8%  |           |
| 2,000 | Hanson PLC (ADR) - Broadly diversified international industrial company .....                   | 13,500    |
| 1,800 | Lubrizol Corporation - Manufacturer of chemical additives for lubricants and fuels .....        | 55,800    |
|       |   | -----     |
|       |   | 69,300    |

&lt;/TABLE&gt;

<TABLE>  
<CAPTION>

| SHARES | COMMON STOCKS - 83.7% [CONT'D]  | VALUE       |
|--------|---|-------------|
| <S>    | <C>   | <C>         |
|        | PAPER PRODUCTS - 7.6%   |             |
| 2,800  | Fort Howard Corporation - Mfrs consumer tissue products from recycled fibers (a) .....            | \$ 77,525   |
| 800    | International Paper Company - Paper, paperboard, packaging products and wood pulp .....           | 32,300      |
| 1,100  | Jefferson Smurfit Group PLC (ADR) - Corrugated cases, paper, paperboard, packaging materials .... | 29,837      |
| 800    | Mead Corporation - Makes and sells paper, paperboard, pulp and wood products .....                | 46,500      |
|        |   | -----       |
|        |   | 186,162     |
|        | RETAIL - 3.4%   |             |
| 700    | Dillard Dept. Stores, Inc. (Class A) - 245 retail department stores in Midwestern states .....    | 21,613      |
| 6,000  | K Mart Corp. - Int'l retailer with such outlets as "Kmart" and "Builders Square" (a) .....        | 62,250      |
|        |   | -----       |
|        |   | 83,863      |
|        | TECHNOLOGY - 1.5%   |             |
| 1,000  | Digital Equipment Corporation - Networked platforms for client/server computing (a) .....         | 36,375      |
|        | TOBACCO - 6.5%  |             |
| 400    | Philip Morris Companies, Inc. - Tobacco, food, beer, and financial services .....                 | 45,050      |
| 1,600  | RJR Nabisco Holdings Corporation - Int'l consumer products co.; mostly tobacco and foods .....    | 54,400      |
| 1,800  | UST, Inc. - Smokeless tobacco and related products, and premium wines .....                       | 58,275      |
|        |   | -----       |
|        |   | 157,725     |
|        | UTILITIES - 9.7%  |             |
| 1,300  | Consolidated Natural Gas Company - Natural gas utility holding company .....                      | 71,825      |
| 4,300  | Niagara Mohawk Power Corporation - Produces and transmits electricity and gas in NY (a) .....     | 42,463      |
| 800    | Ohio Edison Company - Western Pennsylvania and Ohio electric service provider .....               | 18,200      |
| 1,200  | Oklahoma Gas & Electric Co. - Generates, transmits and distributes electricity in OK and AK ..... | 50,100      |
| 2,000  | Unicom Corporation - Chicago area and northern Illinois provider of electricity .....             | 54,250      |
|        |   | -----       |
|        |   | 236,838     |
|        | TOTAL COMMON STOCKS (Cost \$1,963,874) .....  | \$2,042,950 |

</TABLE>

<TABLE>  
<CAPTION>

| PAR AMOUNT | SHORT-TERM INVESTMENTS - 22.2%                      | COUPON   | MATURITY   | VALUE       |
|------------|---|----------|------------|-------------|
| <S>        | <C>   | <C>      | <C>        | <C>         |
|            | VARIABLE RATE DEMAND NOTES (+) - 22.2%              |          |            |             |
| \$120,700  | Eli Lilly Company .....                             | 5.440%   | 07/28/1997 | \$ 120,700  |
| 120,700    | General Mills, Inc .....                            | 5.495    | 08/19/1997 | 120,700     |
| 113,620    | Pitney Bowes, Inc .....                             | 5.507    | 01/31/1997 | 113,620     |
| 60,350     | Sara Lee Corporation .....                          | 5.487    | 05/02/1997 | 60,350      |
| 127,780    | Warner-Lambert Company .....                        | 5.479    | 03/18/1997 | 127,780     |
|            |   |          |            | -----       |
|            | TOTAL SHORT-TERM INVESTMENTS (Cost \$543,150) ..... |          |            | \$ 543,150  |
|            | TOTAL INVESTMENTS - (Cost \$2,507,024) .....        | (105.9)% |            | \$2,586,100 |
|            | Liabilities, less cash and receivables .....        | (5.9)%   |            | (144,625)   |
|            |   | -----    |            | -----       |
|            | TOTAL NET ASSETS .....                              | 100.0 %  |            | \$2,441,475 |
|            |   | =====    |            | =====       |

</TABLE>

(a) Non-income producing security.  
(+) Variable rate demand notes are considered short-term obligations and are payable on demand. Interest rates change periodically on specified dates. The rates listed are as of December 31, 1996.

The accompanying Notes to Financial Statements are an integral part of this Schedule.

| <TABLE>  |  |             |
|--|--|-------------|
| <S>  |  | <C>         |
| -----  |  |             |
| ASSETS:  |  |             |
| Investments in securities, at value (Cost \$2,507,024) .....                         |  | \$2,586,100 |
| Cash .....   |  | 2,201       |
| Accrued dividends and interest .....   |  | 4,045       |
| Deferred organization expense .....  |  | 15,607      |
|  |  | -----       |
| Total Assets .....   |  | 2,607,953   |
|  |  | -----       |
| LIABILITIES:   |  |             |
| Payable for investments purchased .....  |  | 144,580     |
| Payable to Advisor for management fee .....  |  | 1,229       |
| Payable to Advisor for deferred organization expense .....                           |  | 15,607      |
| Accrued expenses .....   |  | 5,062       |
|  |  | -----       |
| Total Liabilities .....  |  | 166,478     |
|  |  | -----       |
| NET ASSETS APPLICABLE TO OUTSTANDING SHARES  |  |             |
| (\$ .001 par value, 100,000,000 shares authorized, 232,419 shares outstanding) ..... |  | \$2,441,475 |
|  |  | =====       |
| NET ASSET VALUE PER SHARE .....  |  | \$ 10.50    |
|  |  | =====       |

&lt;/TABLE&gt;

STATEMENT OF OPERATIONS  
FOR THE PERIOD OCTOBER 11, 1996 (COMMENCEMENT OF OPERATIONS)  
TO DECEMBER 31, 1996

| <TABLE>  |    |         |
|--|----|---------|
| <S>  |    | <C>     |
| -----  |    |         |
| INVESTMENT INCOME:   |    |         |
| Dividends .....  | \$ | 5,908   |
| Interest .....   |    | 3,779   |
|  |    | -----   |
| Total investment income .....                                |    | 9,687   |
|  |    | -----   |
| EXPENSES:  |    |         |
| Management fees .....  |    | 2,325   |
| Distribution fees .....                                      |    | 775     |
| Audit fees .....   |    | 3,500   |
| Transfer agent fees .....                                    |    | 1,605   |
| Custodian fees .....   |    | 927     |
| Amortization of organization expenses .....                  |    | 821     |
| Legal fees .....   |    | 373     |
| Registration fees .....                                      |    | 290     |
| Postage .....  |    | 57      |
|  |    | -----   |
| Total expenses .....   |    | 10,673  |
|  |    | -----   |
| NET INVESTMENT LOSS .....                                    |    | (986)   |
|  |    | -----   |
| REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS:       |    |         |
| Net realized losses on investments .....                     |    | (1,071) |
| Net increase in unrealized appreciation on investments ..... |    | 79,076  |
|  |    | -----   |
| TOTAL REALIZED AND UNREALIZED GAINS ON INVESTMENTS .....     |    | 78,005  |
|  |    | -----   |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS .....   | \$ | 77,019  |
|  |    | =====   |

&lt;/TABLE&gt;

The accompanying Notes to Financial Statements are an integral part of these Statements.

HEARTLAND LARGE CAP VALUE FUND  
STATEMENT OF CHANGES IN NET ASSETS

<TABLE>  
<CAPTION>

-----  
OCT. 11, 1996  
(COMMENCEMENT  
OF OPERATIONS)  
TO DEC. 31, 1996

| <S>   | <C>         |
|---|-------------|
| OPERATIONS:   |             |
| Net investment loss .....   | \$ (986)    |
| Net realized losses on investments .....                            | (1,071)     |
| Net increase in unrealized appreciation on investments .....        | 79,076      |
|   | -----       |
| Net increase in net assets resulting from operations .....          | 77,019      |
|   | -----       |
| FUND SHARE ACTIVITIES:  |             |
| Proceeds from shares issued (254,625 shares) .....                  | 2,589,599   |
| Cost of shares redeemed (22,206 shares) .....                       | (225,143)   |
|   | -----       |
| Net increase in net assets derived from fund share activities ..... | 2,364,456   |
|   | -----       |
| TOTAL INCREASE IN NET ASSETS .....                                  | 2,441,475   |
| NET ASSETS AT THE BEGINNING OF THE PERIOD .....                     | --          |
|   | -----       |
| NET ASSETS AT THE END OF THE PERIOD .....                           | \$2,441,475 |
|   | =====       |

</TABLE>

FINANCIAL HIGHLIGHTS

<TABLE>  
<CAPTION>

|  | OCT. 11, 1996(1)<br>THROUGH<br>DEC. 31, 1996 |
|--|--|
| <S>  | <C>  |
| SELECTED PER SHARE DATA                                  |  |
| Net asset value, beginning of period .....               | \$ 10.00                                     |
| Income from investment operations:                       |  |
| Net investment income .....                              | --   |
| Net realized and unrealized gains on securities .....    | 0.50   |
|  | -----  |
| Total income from investment operations .....            | 0.50   |
| Less distributions from:                                 |  |
| Net investment income .....                              | --   |
| Net realized gains on investments .....                  | --   |
|  | -----  |
| Total distributions .....                                | --   |
| Net asset value, end of period .....                     | \$ 10.50                                     |
|  | =====  |
| TOTAL RETURN .....                                       | 5.0% (2)                                     |
| RATIOS AND SUPPLEMENTAL DATA                             |  |
| Net assets, end of period (in thousands) .....           | \$ 2,441                                     |
| Ratio of expenses to average net assets .....            | 2.73 % (3)                                   |
| Ratio of net investment loss to average net assets ..... | (0.25) % (3)                                 |
| Portfolio turnover rate .....                            | 1 %  |
| Average commission per share .....                       | \$ 0.0668                                    |

</TABLE>

- (1) Commencement of operations.
- (2) Not annualized.
- (3) Annualized.

The accompanying Notes to Financial Statements are an integral part of these Statements.

HEARTLAND VALUE PLUS FUND  
(FORMERLY THE HEARTLAND VALUE & INCOME FUND)  
SCHEDULE OF INVESTMENTS - DECEMBER 31, 1996

<TABLE>  
<CAPTION>

| SHARES | COMMON STOCKS - 54.4%  | VALUE      |
|--------|--|------------|
| <S>    | <C>  | <C>        |
|        | AEROSPACE - 4.8%   |            |
| 70,000 | Kaman Corporation (Class A) - Produces advanced aerospace products .....           | \$ 910,000 |
| 17,000 | Woodward Governor Company - Controls and accessory products for prime movers ..... | 2,244,000  |
|        |  | -----      |

|         |   |           |
|---------|---|-----------|
|         | BANKS AND SAVINGS & LOANS - 8.2%  |           |
| 25,000  | CU Bancorp - Provider of commercial and mortgage banking services in CA .....                                 | 290,625   |
| 50,000  | Hinsdale Financial Corp. - Holding company operating 10 retail banks in Illinois (a) .....                    | 1,250,000 |
| 25,000  | Premier Financial Bancorp - Community bank holding company operating in Kentucky .....                        | 350,000   |
| 75,000  | Teche Holding Company - Holding company for Teche Federal Savings Bank .....                                  | 1,078,125 |
| 70,000  | TR Financial Corp. - Invests deposits in one to four family residential properties .....                      | 2,485,000 |
|         |   | -----     |
|         |   | 5,453,750 |
|         | COMMUNICATIONS - 0.2%   |           |
| 10,000  | Gilbert Associates, Inc. (Class A) - Mfrs telecom equipment and provides technical services .....             | 137,500   |
|         | ENERGY & NATURAL RESOURCES - 7.6%   |           |
| 120,000 | Berry Petroleum Company (Class A) - Explores and produces oil and natural gas .....                           | 1,725,000 |
| 125,000 | USX Delhi Group - Sells natural gas to distribution companies and electric utilities .....                    | 1,984,375 |
| 71,300  | Western Gas Resources, Inc. - Natural gas gathering and processing facilities .....                           | 1,372,525 |
|         |   | -----     |
|         |   | 5,081,900 |
|         | FINANCIAL SERVICES - 0.8%   |           |
| 35,000  | Medallion Financial Corporation - Finance company specializing in taxi medallions .....                       | 533,750   |
|         | FOOD & BEVERAGE - 4.3%  |           |
| 300,000 | Morrison Fresh Cooking, Inc. - Operates cafeterias, and quick-service restaurants .....                       | 1,387,500 |
| 70,000  | Nash Finch Company - Distributor of food and nonfood products .....   | 1,487,500 |
|         |   | -----     |
|         |   | 2,875,000 |
|         | HEALTH CARE SERVICES - 3.8%   |           |
| 228,500 | NovaCare, Inc. - Contract rehabilitation services to health care institutions (a) .....                       | 2,513,500 |
|         | INSURANCE - 2.8%  |           |
| 22,500  | Donegal Group, Inc. - Underwrites a broad line of personal and commercial insurance .....                     | 461,250   |
| 70,500  | Lawyers Title Corporation - Residential and commercial title insurance services .....                         | 1,383,562 |
|         |   | -----     |
|         |   | 1,844,812 |
|         | LEISURE - 3.7%  |           |
| 226,900 | American Recreation Centers, Inc. - Operates 41 bowling centers in six states .....                           | 1,304,675 |
| 150,000 | Intrav, Inc. - Designs, markets and operates escorted, international travel programs .....                    | 1,176,570 |
|         |   | -----     |
|         |   | 2,481,245 |
|         | MANUFACTURING - 12.2%   |           |
| 16,300  | Alamo Group, Inc. - Designs, mfrs, mkts mowing equipment and replacement parts .....                          | 279,138   |
| 108,200 | Decorator Industries, Inc. - Designs and prints fabric for home furnishings .....                             | 1,230,775 |
| 120,000 | Flexsteel Industries, Inc. - Upholstered furniture for various markets .....                                  | 1,560,000 |
| 59,500  | Greenbrier Companies, Inc. - Mfrs and refurbishes rail cars and marine vessels .....                          | 617,313   |
| 50,000  | Insteel Industries, Inc. - Welded wire reinforcement and industrial wires .....                               | 443,750   |
| 26,000  | Knape & Vogt Mfg, Inc. - Storage products .....   | 429,000   |
| 55,000  | Stewart & Stevenson Services, Inc. - Engine-driven power systems .....  | 1,601,875 |
| 100,000 | Tab Products Company - Office filing, furniture systems and computer products .....                           | 887,500   |
| 30,000  | Toro Company - Consumer and commercial lawn and snow removal equipment .....                                  | 1,095,000 |
|         |   | -----     |
|         |   | 8,144,351 |
|         | REITS - 1.5%  |           |
| 25,000  | Ambassador Apartments, Inc. - Multifamily residential properties in TX, AZ, IL and FL .....                   | 590,625   |
| 25,000  | Equity Inns, Inc. - Equity interests in hotels in 26 states .....   | 325,000   |
| 80,000  | Walden Residential Properties, Inc. (Warrants) (144A) -<br>Garden apts in OK, FL, AZ, TX, UT and TN (a) ..... | 96,000    |
|         |   | -----     |
|         |   | 1,011,625 |
|         | RETAIL - 1.5%   |           |
| 40,000  | Carson Pirie Scott & Company - Department store retailer concentrated in upper Midwest (a) .....              | 1,010,000 |

&lt;/TABLE&gt;

<TABLE>

| SHARES | COMMON STOCKS - 54.4% [CONT'D]   | VALUE         |
|--------|--|---------------|
| <S>    | <C>  | <C>           |
|        | UTILITIES - 3.0%   |               |
| 25,000 | Atlantic Energy, Inc. - Holding company for Atlantic City Electric.....                        | \$ 428,125    |
| 30,000 | Minnesota Power & Light Company - Provides electric service in central<br>and northern MN..... | 825,000       |
| 40,000 | Providence Energy Corporation - Parent of 2 wholly-owned gas utilities.....                    | 700,000       |
|        |  | -----         |
|        |  | 1,953,125     |
|        |  | -----         |
|        | TOTAL COMMON STOCKS (COST \$29,957,252).....   | \$ 36,194,558 |

<CAPTION>

| SHARES | PREFERRED STOCK - 2.9%   | VALUE        |
|--------|--|--------------|
| <S>    | <C>  |              |
|        | REITS - 2.9%   |              |
| 80,000 | Walden Residential Properties, Inc. 9.2% (144A)<br>- Garden apts in OK, FL, AZ, TX, UT and TN..... | \$ 1,920,000 |
|        |  | -----        |
|        | TOTAL PREFERRED STOCK (Cost \$1,904,000).....  | \$ 1,920,000 |

<CAPTION>

| PAR AMOUNT  | CONVERTIBLE BONDS - 14.2%  | COUPON | MATURITY   | VALUE        |
|-------------|--|--------|------------|--------------|
| <S>         | <C>  | <C>    | <C>        | <C>          |
|             | BANKS AND SAVINGS & LOANS - 3.0%   |        |            |              |
| \$1,000,000 | Fort Bend Holding Corporation - S&L holding company<br>with four retail offices.....                     | 8.000% | 12/01/2005 | \$ 1,123,750 |
| 500,000     | Professional Bancorp, Inc. - Five full service offices in<br>CA targeting professionals.....             | 8.500  | 03/01/2004 | 497,500      |
| 265,000     | SierraWest Bancorp - Bank holding co. located<br>in Lake Tahoe, CA.....                                  | 8.500  | 02/01/2004 | 393,525      |
|             |  |        |            | -----        |
|             |  |        |            | 2,014,775    |
|             | ELECTRICAL AND ELECTRONICS - 0.8%  |        |            |              |
| 500,000     | Magnetek, Inc. - Mfrs motors, controls, lighting and<br>power supply products.....                       | 8.000  | 09/15/2001 | 511,250      |
|             | FOOD & BEVERAGE - 1.1%   |        |            |              |
| 750,000     | Chock Ful O' Nuts Corporation - Coffees, teas,<br>shell peanuts and peanut products.....                 | 8.000  | 09/15/2006 | 705,000      |
|             | HEALTH CARE SERVICES - 2.8%  |        |            |              |
| 500,000     | Healthsource, Inc. (144A) - Owns and operates<br>HMO's in eastern U.S.....                               | 5.000  | 03/01/2003 | 391,250      |
| 700,000     | ICN Pharmaceuticals, Inc. - Manufactures and<br>markets a broad range of drugs.....                      | 8.500  | 11/15/1999 | 759,500      |
| 800,000     | TheraTx, Inc. - Health care services in subacute<br>care and occupational health.....                    | 8.000  | 02/01/2002 | 741,000      |
|             |  |        |            | -----        |
|             |  |        |            | 1,891,750    |
|             | HOME APPLIANCES - 0.8%   |        |            |              |
| 560,000     | Fedders Corp. - Room air conditioner manufacturer.....   | 8.500  | 06/15/2012 | 532,000      |
|             | LEISURE - 3.0%   |        |            |              |
| 2,000,000   | Bell Sports Corporation - Produces and mkts<br>bicycle helmets and related accessories.....              | 4.250  | 11/15/2000 | 1,565,000    |
| 475,000     | Outboard Marine Corp. - Mfrs and mkts marine products<br>for leisure time purposes.....                  | 7.000  | 07/01/2002 | 463,125      |
|             |  |        |            | -----        |
|             |  |        |            | 2,028,125    |
|             | TECHNOLOGY - 1.9%  |        |            |              |
| 1,500,000   | Park Electrochemical Corp. - Designs and produces advanced<br>electronic materials.....                  | 5.500  | 03/01/2006 | 1,291,875    |
|             | UTILITIES - 0.8%   |        |            |              |
| 500,000     | Hector Communication Corporation - Five telephone<br>companies and 28 cable TV systems in MN and WI..... | 8.500  | 02/15/2002 | 510,000      |
|             |  |        |            | -----        |
|             | TOTAL CONVERTIBLE BONDS (Cost \$9,027,889).....  |        |            | \$ 9,484,775 |

</TABLE>

HEARTLAND VALUE PLUS FUND  
(FORMERLY THE HEARTLAND VALUE & INCOME FUND)  
SCHEDULE OF INVESTMENTS [CONT'D] - DECEMBER 31, 1996

&lt;TABLE&gt;

| PAR<br>AMOUNT | CORPORATE BONDS - 4.6%   | COUPON | MATURITY   | VALUE       |
|---------------|--|--------|------------|-------------|
| <S>           | <C>  | <C>    | <C>        | <C>         |
| \$ 500,000    | AEROSPACE - 0.8%<br>UNC, Inc. - Mfrs and remanufactures engine & airframe parts .....                                | 9.125% | 07/15/2003 | \$ 501,250  |
| 1,000,000     | CONSTRUCTION/HOUSING -1.5%<br>Engle Homes, Inc. - Florida home builder and developer.....                            | 11.750 | 12/15/2000 | 1,005,000   |
| 1,000,000     | HEALTH CARE SERVICES - 1.5%<br>Regency Health Services, Inc. - Operator of<br>California health care facilities..... | 9.875  | 10/15/2002 | 1,015,000   |
| 500,000       | LEISURE - 0.8%<br>Grand Casinos, Inc. - Develops, manages land-based<br>and dockside casinos, bingo facilities.....  | 10.125 | 12/01/2003 | 506,250     |
|               | TOTAL CORPORATE BONDS (Cost \$2,936,193) .....   |        |            | \$3,027,500 |

&lt;CAPTION&gt;

| PAR<br>AMOUNT | SHORT-TERM INVESTMENTS - 23.2%  | COUPON | MATURITY   | VALUE        |
|---------------|---|--------|------------|--------------|
| <S>           | <C>   | <C>    | <C>        | <C>          |
| \$6,000,000   | DISCOUNT NOTES - 17.2%<br>Federal Home Loan Mortgage Corporation..... | 0.000% | 01/06/1997 | \$ 5,995,542 |
| 3,500,000     | Federal National Mortgage Association.....                            | 0.000  | 01/13/1997 | 3,493,700    |
| 2,000,000     | Federal National Mortgage Association.....                            | 0.000  | 01/21/1997 | 1,993,967    |
|               |   |        |            | 11,483,209   |
| 967,500       | VARIABLE RATE DEMAND NOTES (+) - 6.0%<br>Eli Lilly Company.....       | 5.440  | 07/28/1997 | 967,500      |
| 3,000,000     | Warner-Lambert Company.....   | 5.479  | 03/18/1997 | 3,000,000    |
|               |   |        |            | 3,967,500    |
|               | TOTAL SHORT-TERM INVESTMENTS - (Cost \$15,450,709) .....              |        |            | \$15,450,709 |
|               | TOTAL INVESTMENTS - (Cost \$59,276,043) .....                         | 99.3%  |            | \$66,077,542 |
|               | Cash and receivables, less liabilities.....                           | 0.7%   |            | 504,644      |
|               | TOTAL NET ASSETS.....   | 100.0% |            | \$66,582,186 |

&lt;/TABLE&gt;

- (a) Non-income producing security.  
(+) Variable rate demand notes are considered short-term obligations and are payable on demand. Interest rates change periodically on specified dates. The rates listed are as of December 31, 1996.

The accompanying Notes to Financial Statements are an integral part of this Schedule.

HEARTLAND VALUE PLUS FUND  
(FORMERLY THE HEARTLAND VALUE & INCOME FUND)  
STATEMENT OF ASSETS AND LIABILITIES - DECEMBER 31, 1996

&lt;TABLE&gt;

|  |               |
|--|---------------|
| <S>  | <C>           |
| ASSETS:  |               |
| Investments in securities, at value (Cost \$59,276,043)..... | \$ 66,077,542 |
| Cash.....  | 20,086        |

|   |               |
|---|---------------|
| Receivable from fund shares sold.....   | 1,041,926     |
| Accrued dividends and interest.....   | 291,849       |
| Deferred organization expense.....  | 15,883        |
|   | -----         |
| Total Assets.....   | 67,447,286    |
|   | -----         |
| LIABILITIES:  |               |
| Payable for investments purchased.....  | 464,774       |
| Payable for fund shares redeemed.....   | 284,830       |
| Distributions payable.....  | 10,149        |
| Payable to Advisor for management fee.....  | 33,748        |
| Payable to Advisor for deferred organization expense.....                             | 15,883        |
| Accrued expenses.....   | 55,716        |
|   | -----         |
| Total Liabilities.....  | 865,100       |
|   | -----         |
| NET ASSETS APPLICABLE TO OUTSTANDING SHARES   |               |
| (\$ .001 par value, 100,000,000 shares authorized, 4,850,879 shares outstanding)..... | \$ 66,582,186 |
|   | =====         |
| NET ASSET VALUE PER SHARE.....  | \$ 13.73      |
|   | =====         |

</TABLE>

STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 1996

|   |               |
|---|---------------|
| <TABLE>   |               |
| <S>   |               |
| <C>   |               |
| INVESTMENT INCOME:  |               |
| Interest.....   | \$ 956,949    |
| Dividends.....  | 601,136       |
|   | -----         |
| Total investment income.....                                | 1,558,085     |
|   | -----         |
| EXPENSES:   |               |
| Management fees.....  | 218,448       |
| Distribution fees.....                                      | 78,017        |
| Transfer agent fees.....                                    | 94,865        |
| Registration fees.....                                      | 24,299        |
| Audit fees.....   | 16,914        |
| Postage.....  | 11,185        |
| Amortization of organization expense.....                   | 7,625         |
| Custodian fees.....   | 7,604         |
| Legal fees.....   | 6,730         |
| Printing and communications.....                            | 5,471         |
| Directors' fees.....  | 4,195         |
| Other operating expenses.....                               | 7,584         |
|   | -----         |
| Total expenses.....   | 482,937       |
|   | -----         |
| NET INVESTMENT INCOME.....                                  | 1,075,148     |
|   | -----         |
| REALIZED AND UNREALIZED GAINS ON INVESTMENTS:               |               |
| Net realized gains on investments.....                      | 3,357,002     |
| Net increase in unrealized appreciation on investments..... | 5,791,869     |
|   | -----         |
| TOTAL REALIZED AND UNREALIZED GAINS ON INVESTMENTS.....     | 9,148,871     |
|   | -----         |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS.....   | \$ 10,224,019 |
|   | =====         |

</TABLE>

The accompanying Notes to Financial Statements are an integral part of these Statements.

HEARTLAND VALUE PLUS FUND  
(FORMERLY THE HEARTLAND VALUE & INCOME FUND)  
STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>  
<CAPTION>



|  | FOR THE YEAR ENDED DEC. 31, |               |
|--|-----------------------------|---------------|
|  | 1996                        | 1995          |
| <S>  | <C>                         | <C>           |
| <b>OPERATIONS:</b>   |                             |               |
| Net investment income .....  | \$ 1,075,148                | \$ 569,494    |
| Net realized gains on investments .....  | 3,357,002                   | 574,699       |
| Net increase in unrealized appreciation on investments .....   | 5,791,869                   | 1,645,292     |
| Net increase in net assets resulting from operations .....   | 10,224,019                  | 2,789,485     |
| <b>DISTRIBUTIONS TO SHAREHOLDERS FROM:</b>   |                             |               |
| Net investment income .....  | (1,075,148)                 | (569,494)     |
| Net realized gains on investments .....  | (3,357,002)                 | (420,255)     |
| Total distributions to shareholders .....  | (4,432,150)                 | (989,749)     |
| <b>FUND SHARE ACTIVITIES:</b>  |                             |               |
| Proceeds from shares (4,188,644 and 1,286,133 shares, respectively) .....  | 54,866,412                  | 14,200,423    |
| Reinvested dividends from net investment income and distributions from net realized gains on investments (299,317 and 81,006 shares, respectively) ..... | 4,017,651                   | 892,309       |
| Cost of shares redeemed (1,349,351 and 691,990 shares, respectively) .....   | (17,216,440)                | (7,653,916)   |
| Net increase in net assets derived from Fund share activities .....  | 41,667,623                  | 7,438,816     |
| TOTAL INCREASE IN NET ASSETS .....   | 47,459,492                  | 9,238,552     |
| NET ASSETS AT THE BEGINNING OF THE YEAR .....  | 19,122,694                  | 9,884,142     |
| NET ASSETS AT THE END OF THE YEAR .....  | \$ 66,582,186               | \$ 19,122,694 |

</TABLE>

#### FINANCIAL HIGHLIGHTS

| <S>  | FOR THE YEAR ENDED |          |          | OCT. 26, 1993(1)<br>THROUGH<br>DEC. 31, 1993 |
|--|--------------------|----------|----------|--|
|  | DECEMBER 31,       |          |          |  |
|  | 1996               | 1995     | 1994     |  |
| <S>  | <C>                | <C>      | <C>      | <C>  |
| <b>SELECTED PER SHARE DATA</b>                                     |                    |          |          |  |
| Net asset value, beginning of period .....                         | \$ 11.17           | \$ 9.53  | \$ 10.45 | \$ 10.00                                     |
| Income from investment operations:                                 |                    |          |          |  |
| Net investment income .....  | 0.38               | 0.41     | 0.41     | 0.07   |
| Net realized and unrealized gains (losses)<br>on investments ..... | 3.33               | 1.89     | (0.92)   | 0.45   |
| Total income from investment operations .....                      | 3.71               | 2.30     | (0.51)   | 0.52   |
| Less distributions from:   |                    |          |          |  |
| Net investment income .....  | (0.38)             | (0.41)   | (0.41)   | (0.07)                                       |
| Net realized gains on investments .....                            | (0.77)             | (0.25)   | --       | --   |
| Total distributions .....  | (1.15)             | (0.66)   | (0.41)   | (0.07)                                       |
| Net asset value, end of period .....                               | \$ 13.73           | \$ 11.17 | \$ 9.53  | \$ 10.45                                     |
| TOTAL RETURN(2) .....  | 33.8%              | 24.4%    | (4.9)%   | 5.2%(3)                                      |
| <b>RATIOS AND SUPPLEMENTAL DATA</b>                                |                    |          |          |  |
| Net assets, end of period (in thousands) .....                     | \$66,582           | \$19,123 | \$ 9,884 | \$ 5,811                                     |
| Ratio of expenses to average net assets .....                      | 1.45%              | 1.54%    | 1.80%    | 1.30%(4)                                     |
| Ratio of net investment income to<br>average net assets .....      | 3.23%              | 3.90%    | 4.39%    | 6.52%(4)                                     |
| Portfolio turnover rate .....                                      | 73%                | 150%     | 127%     | 6%   |
| Average commission per share(5) .....                              | \$0.0573           | N/A      | N/A      | N/A  |

</TABLE>

- (1) Commencement of operations.
- (2) The contingent deferred sales charge in effect for the Fund prior to June 1, 1994 is not reflected in Total Return as set forth in the table.
- (3) Not annualized.
- (4) Annualized.
- (5) Disclosure of average commission per share was not required prior to the year ended December 31, 1996.

The accompanying Notes to Financial Statements are an integral part of these Statements.

HEARTLAND U.S. GOVERNMENT SECURITIES FUND  
STATEMENT OF NET ASSETS - DECEMBER 31, 1996

<TABLE>  
<CAPTION>

| PAR<br>AMOUNT | LONG-TERM INVESTMENTS - 100.2%   | COUPON  | MATURITY   | VALUE        |
|---------------|--|---------|------------|--------------|
| <C>           |  | <C>     | <C>        | <C>          |
|               | U.S. TREASURY AND AGENCY SECURITIES - 35.8%  |         |            |              |
| \$4,000,000   | U.S. Treasury Note .....   | 7.250%  | 05/15/2004 | \$ 4,211,200 |
| 15,000,000    | U.S. Treasury Bond .....   | 0.000   | 11/15/2014 | 4,501,650    |
| 24,000,000    | U.S. Treasury Bond .....   | 0.000   | 11/15/2016 | 6,234,720    |
| 4,000,000     | Tennessee Valley Authority (a) .....   | 8.625   | 11/15/2029 | 3,586,204    |
|               |  |         |            | 18,533,774   |
|               | AGENCY MORTGAGE-BACKED SECURITIES - 38.8%  |         |            |              |
| 5,000,000     | Federal Home Loan Mortgage Corporation (CMO) .....   | 6.400   | THRU 2023  | 4,818,300    |
| 3,574,000     | Federal Home Loan Mortgage Corporation (CMO) .....   | 7.000   | THRU 2022  | 3,442,369    |
| 1,217,678     | Federal Housing Administration .....   | 8.875   | THRU 2030  | 1,266,767    |
| 2,490,980     | Federal National Mortgage Association .....  | 6.500   | THRU 2011  | 2,453,765    |
| 23,157        | Federal National Mortgage Association .....  | 10.000  | THRU 2017  | 25,393       |
| 1,882,029     | Federal National Mortgage Association .....  | 7.000   | THRU 2035  | 1,826,745    |
| 6,000,000     | Federal National Mortgage Association (CMO) .....  | 7.000   | THRU 2020  | 5,862,060    |
| 342,930       | Government National Mortgage Association .....   | 10.250  | THRU 2005  | 371,221      |
|               |  |         |            | 20,066,620   |
|               | CORPORATE BONDS - 25.6%  |         |            |              |
| 1,000,000     | Brown Group, Inc. ....   | 8.450   | 02/15/1999 | 1,008,750    |
| 3,800,000     | Coleman Holdings, Inc. ....  | 0.000   | 05/27/1998 | 3,163,500    |
| 2,950,000     | Grancare, Inc. ....  | 9.375   | 09/15/2005 | 3,211,813    |
| 2,389,000     | IMC Fertilizer Group, Inc. ....  | 9.450   | 12/15/2011 | 2,777,213    |
| 1,000,000     | Integrated Health Services, Inc. ....  | 9.625   | 05/31/2002 | 1,032,500    |
| 1,940,000     | Louis Dreyfus Natural Gas Corporation .....  | 9.250   | 06/15/2004 | 2,044,275    |
|               |  |         |            | 13,238,051   |
|               | TOTAL LONG-TERM INVESTMENTS (Cost \$52,033,523) .....  | 100.2 % |            | \$51,838,445 |
|               | Liabilities, less cash and receivables .....   | (0.2)%  |            | (125,482)    |
|               |  |         |            | -----        |
|               | TOTAL NET ASSETS .....   | 100.0 % |            | \$51,712,963 |
|               |  | =====   |            | =====        |
|               | NET ASSET VALUE PER SHARE (\$.001 par value, 100,000,000<br>shares authorized, 5,418,511 shares outstanding) ..... |         |            | \$ 9.54      |
|               |  |         |            | =====        |

</TABLE>

(a) Deferred interest security that receives no coupon payments until 11/14/1999 at which time the stated coupon becomes effective.

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1996

| <S>                                       | <C>         |
|---|-------------|
| INVESTMENT INCOME:                        |             |
| Interest .....                            | \$4,236,767 |
| EXPENSES:                                 |             |
| Management fees .....                     | 378,850     |
| Distribution expense .....                | 145,712     |
| Transfer agent fees .....                 | 74,857      |
| Registration fees .....                   | 19,415      |
| Postage .....                             | 14,735      |
| Custodian fees .....                      | 11,396      |
| Audit fees .....                          | 10,973      |
| Printing and communications .....         | 8,087       |
| Directors' fees .....                     | 4,218       |
| Legal fees .....                          | 377         |
| Other operating expenses .....            | 24,317      |
|   | -----       |
| Total expenses .....                      | 692,937     |
| Less: Advisor management fee waiver ..... | (87,427)    |
|   | -----       |
| Net expenses .....                        | 605,510     |
|   | -----       |
| NET INVESTMENT INCOME .....               | 3,631,257   |

| REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS:   |             |
|--|-------------|
| Net realized gains (losses) on:                          |             |
| Securities .....   | 549,572     |
| Futures contracts .....                                  | (461,482)   |
| Net increase in unrealized depreciation on investments.. | (3,109,011) |
| -----  |             |
| TOTAL REALIZED AND UNREALIZED LOSSES ON INVESTMENTS .... | (3,020,921) |
| -----  |             |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ... | \$ 610,336  |
|  | =====       |

</TABLE>

The accompanying Notes to Financial Statements are an integral part of these Statements.

HEARTLAND U.S. GOVERNMENT SECURITIES FUND  
STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>  
<CAPTION>

|  | FOR THE YEAR ENDED<br>DECEMBER 31, |              |
|--|------------------------------------|--------------|
|  | 1996                               | 1995         |
|  | -----                              | -----        |
| <C>  | <C>                                | <C>          |
| OPERATIONS:  |                                    |              |
| Net investment income .....  | \$ 3,631,257                       | \$ 4,120,863 |
| Net realized gains (losses) on investments .....   | 88,090                             | (291,019)    |
| Net increase in unrealized appreciation (depreciation) on investments.....                       | (3,109,011)                        | 7,612,595    |
|  | -----                              | -----        |
| Net increase in net assets resulting from operations .....                                       | 610,336                            | 11,442,439   |
| -----  |                                    |              |
| DISTRIBUTIONS TO SHAREHOLDERS FROM:  |                                    |              |
| Net investment income .....  | (3,631,257)                        | (4,120,864)  |
| -----  |                                    |              |
| FUND SHARE ACTIVITIES:   |                                    |              |
| Proceeds from shares issued (976,754 and 1,191,613 shares, respectively)..                       | 9,208,348                          | 11,219,578   |
| Reinvested dividends from net investment income (277,541 and 299,306 shares, respectively) ..... | 2,603,735                          | 2,843,803    |
| Cost of shares redeemed (2,486,341 and 2,115,677 shares, respectively) ...                       | (23,338,997)                       | (19,931,232) |
|  | -----                              | -----        |
| Net decrease in net assets derived from Fund share activities .....                              | (11,526,914)                       | (5,867,851)  |
| -----  |                                    |              |
| TOTAL INCREASE (DECREASE) IN NET ASSETS .....  | (14,547,835)                       | 1,453,724    |
| NET ASSETS AT THE BEGINNING OF THE YEAR .....  | 66,260,798                         | 64,807,074   |
|  | -----                              | -----        |
| NET ASSETS AT THE END OF THE YEAR .....  | \$51,712,963                       | \$66,260,798 |
|  | =====                              | =====        |

</TABLE>

FINANCIAL HIGHLIGHTS

<TABLE>  
<CAPTION>

|   | FOR THE YEAR ENDED DECEMBER 31, |         |          |          |         |
|---|---------------------------------|---------|----------|----------|---------|
|   | 1996                            | 1995    | 1994     | 1993     | 1992    |
|   | -----                           | -----   | -----    | -----    | -----   |
| <S>   | <C>                             | <C>     | <C>      | <C>      | <C>     |
| SELECTED PER SHARE DATA                                     |                                 |         |          |          |         |
| Net asset value, beginning of year .....                    | \$ 9.96                         | \$ 8.91 | \$ 10.50 | \$ 9.93  | \$ 9.97 |
| Income from investment operations:                          |                                 |         |          |          |         |
| Net investment income .....                                 | 0.59                            | 0.60    | 0.59     | 0.56     | 0.66    |
| Net realized and unrealized gains (losses) on investments.. | (0.42)                          | 1.05    | (1.59)   | 1.18     | 0.30    |
|   | -----                           | -----   | -----    | -----    | -----   |
| Total income from investment operations .....               | 0.17                            | 1.65    | (1.00)   | 1.74     | 0.96    |
| Less distributions from:                                    |                                 |         |          |          |         |
| Net investment income .....                                 | (0.59)                          | (0.60)  | (0.59)   | (0.56)   | (0.66)  |
| Net realized gains on investments .....                     | --                              | --      | --       | (0.61)   | (0.34)  |
|   | -----                           | -----   | -----    | -----    | -----   |
| Total distributions .....                                   | (0.59)                          | (0.60)  | (0.59)   | (1.17)   | (1.00)  |
| Net asset value, end of year .....                          | \$ 9.54                         | \$ 9.96 | \$ 8.91  | \$ 10.50 | \$ 9.93 |
|   | =====                           | =====   | =====    | =====    | =====   |

TOTAL RETURN(1) ..... 2.0% 19.0% (9.6)% 17.8% 10.1%

RATIOS AND SUPPLEMENTAL DATA

|  |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|
| Net assets, end of year (in thousands) .....               | \$51,713 | \$66,261 | \$64,807 | \$66,789 | \$28,378 |
| Ratio of net expenses to average net assets (2) .....      | 1.06%    | 1.07%    | 1.07%    | 1.06%    | 0.92%    |
| Ratio of net investment income to average net assets ..... | 6.36%    | 6.31%    | 6.30%    | 5.09%    | 6.71%    |
| Portfolio turnover rate .....                              | 30%      | 97%      | 95%      | 200%     | 149%     |

</TABLE>

- (1) Contingent deferred and initial sales charges in effect for the Fund prior to June 1, 1994 are not reflected in Total Return as set forth in the table.
- (2) Heartland Advisors, Inc. voluntarily waived the Fund's management fees in their entirety from May 7, 1988 through November 30, 1990. Effective December 1, 1990, Heartland Advisors, Inc. partially reinstated a portion of the Fund's management fees at the rate of .25 of 1% of average daily net assets and, effective January 20, 1992 and January 1, 1993, reinstated additional portions of the fees resulting in rates of .35 of 1% and .50 of 1% of average daily net assets, respectively.

The accompanying Notes to Financial Statements are an integral part of these Statements.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1996

(1) ORGANIZATION

The Heartland Group, Inc. (the "Corporation") is registered as a diversified open-end management company under the Investment Company Act of 1940. The Small Cap Contrarian Fund, Value Fund, Mid Cap Value Fund, Large Cap Value Fund, Value Plus Fund (formerly the Value & Income Fund), and U.S. Government Securities Fund (the "Funds") are six of the seven series of funds issued by the Corporation at December 31, 1996. Two additional series commenced operations on January 2, 1997.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed by the Funds in the preparation of the financial statements:

- (a) Portfolio securities which are traded on stock exchanges are valued at the last sale price as of the close of business on the day the securities are being valued, or, lacking any sales, at the latest bid price. Each over-the-counter security for which the last sale price on the day of valuation is available from NASDAQ and falls within the range of the latest bid and asked quotations is valued at that price. All other securities traded in the over-the-counter market are valued at the most recent bid prices. Foreign securities are valued on the basis of quotations from the primary market in which they are traded, and are translated from the local currency into U.S. dollars using exchange rates as of the close of the New York Stock Exchange. Debt securities are stated at fair value as furnished by independent pricing services based primarily upon information concerning market transactions and dealer quotations for similar securities or by dealers who make markets in such securities. Debt securities having maturities of 60 days or less may be valued at acquisition cost, plus or minus any amortized discount or premium. Securities and other assets for which quotations are not readily available are valued at their fair value using methods determined by the Board of Directors.
- (b) The Funds' policy is to comply with the requirements of the Internal Revenue Code which are applicable to regulated investment companies and to distribute substantially all of their taxable income to their shareholders. The Funds accordingly paid no Federal income taxes, and no Federal income tax provision is required.

At December 31, 1996, the U.S. Government Securities Fund had Federal income tax capital loss carryforwards of \$4,940,986 expiring in 2002 and \$858,458 expiring in 2003. During the year ended December 31, 1996, \$89,239 of capital loss carryforward was utilized by this Fund. At December 31, 1996, the Mid Cap Value and Large Cap Value Funds had Federal income tax capital loss carryforwards of \$3,604 and \$1,071, respectively, expiring in 2004. The U.S. Government Securities, Mid Cap Value, and Large Cap Value Funds do not intend to make distributions of any future realized capital gains until their Federal income tax capital loss carryforwards are completely utilized.

- (c) Net investment income, if any, is distributed to each shareholder as a

dividend. Dividends from the Small Cap Contrarian, Value, Mid Cap Value and Large Cap Value Funds are declared and paid annually. Dividends from the Value Plus Fund are declared and paid quarterly. Dividends from the U.S. Government Securities Fund are declared daily and distributed monthly. Dividends are recorded on the ex-dividend date. Net realized gains on investments, if any, are distributed annually.

Statement of Position 93-2 requires that permanent financial reporting and tax differences be reclassified to paid-in capital. For the year ended December 31, 1996, the Mid Cap Value and Large Cap Value Funds reclassified permanent differences between book and taxable net investment loss in the amounts of \$1,646 and \$986, respectively, and the U.S. Government Securities Fund reclassified a permanent difference between book and taxable net realized gain on investments of \$1,149. Net assets were not affected by these reclassifications.

For the Small Cap Contrarian, Value, and Value Plus Funds, the percentage of ordinary income which is eligible for the corporate dividend received deduction for the fiscal year ended December 31, 1996, was 7.17%, 13.23%, and 15.93%, respectively.

- (d) The Funds record security and shareholder transactions no later than the first business day after the trade date. Net realized gains and losses on investments are computed on the identified cost basis. Dividend income is recognized on the ex-dividend date, and interest income is recognized on an accrual basis. The Funds amortize premiums and accrete discounts on investments utilizing the effective interest method.

52

71

- (e) Each Fund may enter into futures contracts for hedging purposes, such as to protect against anticipated declines in the market value of its portfolio securities or to manage exposure to changing interest rates. Upon entering into futures contracts, a Fund pledges to the broker securities equal to the minimum "initial margin" requirements of the exchange. Additionally, the Fund receives from or pays to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as "variation margin," and are recorded by a Fund as unrealized gains or losses. When the futures contract is closed, a Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The use of futures contracts involves, to varying degrees, elements of market risk in excess of the amount recognized in the Statement of Assets and Liabilities. The predominant risk is that the movement of the futures contracts price may result in a loss which could render a portfolio's hedging strategy unsuccessful. The Funds had no open futures contracts at December 31, 1996.

- (f) The Small Cap Contrarian Fund may enter into transactions where it will sell a security short (sell a security which the Fund does not own for delivery at a future date) and borrow the same security from a broker or other institution to complete the sale. The predominant risk is that the market price may decrease or increase between the date of the short sale and the date on which the Fund must replace the borrowed security.

The Small Cap Contrarian, Value, Mid Cap Value, Large Cap Value, and Value Plus Funds may each engage in "short sales against the box." These transactions involve selling a security that a Fund owns for delivery at a specified date in the future. Similarly, each of these Funds may also engage in short sales of securities of an issuer ("acquiror") that has publicly announced a proposed or pending transaction in which a portfolio security of the Fund will be converted into securities of the acquiror.

Each Fund maintains a segregated collateral account with its custodian consisting of cash or liquid assets to cover short positions, including short sales in acquiror securities.

The Schedules of Investments for the Small Cap Contrarian and Value Funds do not include the following "boxed" positions where the Funds have either purchased a long security to close out a short position, or sold a security short against the box. At December 31, 1996, these Funds chose not to complete these boxed transactions which would have required delivery of the long securities.

## SMALL CAP CONTRARIAN FUND

| LONG POSITIONS                 | SHARES  | MARKET VALUE |
|--------------------------------|---------|--------------|
| Vacation Break USA, Inc.       | 56,000  | \$ 1,134,000 |
| =====                          |         |              |
| SHORT POSITIONS                | SHARES  | MARKET VALUE |
| Advanced Tissue Sciences, Inc. | 100,000 | \$ 956,250   |
| Chesapeake Energy Corp.        | 50,000  | 2,781,250    |
| Eagle Hardware & Garden, Inc.  | 10,000  | 207,500      |
| Identix Inc.                   | 23,900  | 195,681      |
| Just For Feet, Inc.            | 75,000  | 1,968,750    |
| The Men's Wearhouse, Inc.      | 50,000  | 1,225,000    |
| Oracle Corporation             | 100,000 | 4,175,000    |
| Sykes Enterprises, Inc.        | 20,000  | 750,000      |
|                                |         | -----        |
|                                |         | \$12,259,431 |
|                                |         | =====        |

## VALUE FUND

| LONG POSITIONS                       | SHARES  | MARKET VALUE |
|--------------------------------------|---------|--------------|
| Abraxas Petroleum Corp.              | 19,300  | \$ 190,588   |
| Chieftan International, Inc.         | 75,000  | 1,950,000    |
| Clayton Williams Energy, Inc.        | 100,000 | 1,737,500    |
| Cliffs Drilling Company              | 200,000 | 12,650,000   |
| CMAC Investment Corporation          | 400,000 | 14,700,000   |
| Computer Products, Inc.              | 600,000 | 11,700,000   |
| Gehl Company                         | 10,000  | 108,750      |
| Gibson Greetings, Inc.               | 200,600 | 3,936,775    |
| Inter-Regional Financial Group, Inc. | 100,000 | 3,525,000    |

53

72

## VALUE FUND [CONT'D]

| LONG POSITIONS [CON'T]                 | SHARES  | MARKET VALUE |
|--|---------|--------------|
| Matthews International Corp. (Class A) | 25,000  | 706,250      |
| Mosinee Paper Corporation              | 67,880  | 2,409,740    |
| MTL, Inc.                              | 36,000  | 729,000      |
| Nellcor Puritan Bennett, Inc.          | 82,000  | 1,793,750    |
| Pfeiffer Vacuum Technology (ADR)       | 24,000  | 432,000      |
| Pool Energy Services Company           | 161,300 | 2,479,988    |
| Read-Rite Corporation                  | 600,000 | 15,150,000   |
| Snyder Oil Corporation                 | 300,000 | 5,212,500    |
| Spartech Corporation                   | 100,000 | 1,112,500    |
| UNC, Inc.                              | 100,000 | 1,200,000    |
| Washington Federal, Inc.               | 127,900 | 3,389,350    |
| Westcast Industries, Inc. (Class A)    | 45,000  | 1,058,202    |
|  |         | -----        |
|  |         | \$86,171,893 |
|  |         | =====        |

Included in the "Receivable from Investments Sold Short" on the Statements of Assets and Liabilities for the Small Cap Contrarian and Value Funds was \$1,103,513 and \$79,327,687, respectively, related to these short sales against the box. At December 31, 1996, the cost of the boxed positions and the associated net unrealized appreciation related to these positions for the Small Cap Contrarian Fund were \$280,000 and \$823,513, respectively, and for the Value Fund were \$33,194,948 and \$46,132,739, respectively.

Also included in the "Receivable from Investments Sold Short" for the Small Cap Contrarian Fund was \$13,818,041 related to these short positions for which the underlying securities have been purchased but not delivered. At December 31, 1996, the cost of offsetting long positions and the associated net unrealized appreciation related to these positions was \$12,050,340 and \$1,767,701, respectively.

- (g) A restricted security is a security which has been purchased through a private offering and cannot be resold to the general public without prior registration under the Securities Act of 1933. At December 31, 1996, the Small Cap Contrarian Fund held the following restricted securities (equaling 3.1% of total assets). These securities are valued under the supervision of, and pursuant to guidelines adopted by, the Funds' Board of Directors.

| Security   | Shares  | Cost        | Market Value | Acquisition Date |
|--|---------|-------------|--------------|------------------|
| Bolder Technologies Corp.                          | 250,000 | \$3,062,500 | \$2,671,100  | 10/96            |
| Apex Silver Mines Ltd.                             | 187,500 | 1,500,000   | 1,500,000    | 8/96             |
| Excelsior-Henderson Motorcycle Mfg. Co. Pfd. Stock | 690,000 | 1,725,000   | 1,725,000    | 8/96             |
| Drypers Corp. Pfd. Stock                           | 22,500  | 2,250,000   | 2,934,783    | 2/96             |

(h) The Small Cap Contrarian Fund may buy and sell options, including purchasing and writing put and call options and options on futures, based on any type of security, index, or currency related to its investments, including options traded on foreign exchanges and options not traded on exchanges. The Value, Mid Cap Value, Large Cap Value, Value Plus and U.S. Government Securities Funds each may write covered call options and purchase put options that are traded on recognized U.S. exchanges and enter into closing transactions with respect to such options. The Mid Cap Value and Large Cap Value Funds may also purchase call options. The Funds may enter into options transactions for hedging purposes, and will not use these instruments for speculation. Written covered call options and purchased put options are valued at the latest sales price at the time at which net asset value per share of a Fund is computed (close of regular trading on the New York Stock Exchange) or, lacking any sales, the latest asked or bid price, respectively.

For the year ended December 31, 1996, the Small Cap Contrarian Fund had purchased the following put options:

|                                   | # of Contracts | Cost       |
|-----------------------------------|----------------|------------|
| Balance at January 1, 1996        | --             | --         |
| Options purchased (S&P 500 Index) | 500            | \$ 770,350 |
| Options expired                   | (100)          | (223,965)  |
| Options closed                    | (400)          | (546,385)  |
| Balance at December 31, 1996      | --             | \$ --      |

54

73

For the year ended December 31, 1996, the Value Fund had written the following covered call options:

|   | # OF CONTRACTS | PREMIUM AMOUNT |
|---|----------------|----------------|
| Balance at January 1, 1996                        | --             | --             |
| Options opened (Computer Products, Inc. - Jan/97) | 500            | \$111,328      |
| Options expired                                   | --             | --             |
| Options closed                                    | --             | --             |
| Balance at December 31, 1996                      | 500            | \$111,328      |

(i) 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

(3) INVESTMENT MANAGEMENT FEES AND TRANSACTIONS WITH RELATED PARTIES

The Funds have management agreements with Heartland Advisors, Inc. (the "Advisor") to serve as investment advisor and manager. Under the terms of the agreements, the Small Cap Contrarian, Value, Mid Cap Value, and Large Cap Value Funds pay the Advisor a monthly management fee at the annual rate of .75% of the daily net asset value of the Funds; the Value Plus Fund pays the Advisor a monthly management fee at the annual rate of .70% of the daily

net asset value of the Fund; and the U.S. Government Securities Fund pays the Advisor a monthly management fee at the annual rate of .65% of the first \$100 million of the Fund's average daily net assets, .50% of the next \$400 million of net assets, and .40% on net assets in excess of \$500 million.

For the year ended December 31, 1996, the Advisor collected a partial fee for the U.S. Government Securities Fund at the annual rate of .50% of the Fund's average daily net assets. The Advisor may reinstate any portion or all of the Fund's management fee at any time.

The Funds have adopted a Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Investment Company Act of 1940. The Distributor is Heartland Advisors, Inc. (the "Distributor"). The Plan requires the Funds to pay to the Distributor a quarterly distribution fee on an annual basis up to .25% of their daily net assets. Additionally, for the year ended December 31, 1996, the Distributor received for the Value, Value Plus, and U.S. Government Securities Funds \$91,223, \$7,812 and \$32,254, respectively, from investors for commissions for Fund shares redeemed and for the Small Cap Contrarian, Value, and Value Plus Funds, \$22,532, \$285,057 and \$4,028, respectively, for brokerage fees on the execution of purchases and sales of portfolio investments.

Officers and certain directors of the Funds are also officers and/or directors of Heartland Advisors, Inc.; however, they receive no compensation from the Funds.

As permitted under Rule 10f-3 of the Investment Company Act of 1940, the Board of Directors of the Funds has adopted a plan which will allow the Funds, under certain conditions described in the Rule, to acquire newly-issued securities from syndicates in which the Distributor is a member.

(4) DEFERRED ORGANIZATION EXPENSES

For the Small Cap Contrarian, Mid Cap Value, Large Cap Value and Value Plus Funds, organization expenses have been deferred and are being amortized on a straight-line basis over sixty months. Payments for these expenses were advanced by the Advisor, who will be reimbursed by the Funds over the same period. The proceeds of any redemption of the initial shares by the original shareholders will be reduced by a pro rata portion of any then unamortized expenses. Unamortized deferred organization expenses and the related payable to the Advisor at December 31, 1996, were \$32,869, \$15,607, \$15,607 and \$15,883, respectively.

(5) INVESTMENT TRANSACTIONS

During the year ended December 31, 1996, purchases and sales of securities, other than short-term securities, were as follows (in thousands):

<TABLE>  
<CAPTION>

|                        | SMALL CAP<br>CONTRARIAN<br>FUND | VALUE<br>FUND | MID CAP<br>VALUE<br>FUND | LARGE CAP<br>VALUE<br>FUND | VALUE<br>PLUS<br>FUND | U.S. GOVERNMENT<br>SECURITIES<br>FUND |
|------------------------|---------------------------------|---------------|--------------------------|----------------------------|-----------------------|---------------------------------------|
|                        | -----                           | -----         | -----                    | -----                      | -----                 | -----                                 |
| <S>                    | <C>                             | <C>           | <C>                      | <C>                        | <C>                   | <C>                                   |
| Purchases              | \$240,966                       | \$741,608     | \$ 6,127                 | \$ 1,980                   | \$46,312              | \$16,851                              |
| Proceeds from<br>Sales | 100,038                         | 396,739       | 121                      | 15                         | 20,097                | 29,096                                |

</TABLE>

Included in these transactions were purchases and sales of U.S. obligations in the Value Fund of \$49,756,641 and \$0, respectively, and in the U.S. Government Securities Fund of \$2,089,062 and \$11,402,884, respectively.

At December 31, 1996, the gross unrealized appreciation and depreciation on investments for tax purposes was as follows (in thousands):

<TABLE>  
<CAPTION>

|  | SMALL CAP<br>CONTRARIAN<br>FUND | VALUE<br>FUND | MID CAP<br>VALUE<br>FUND | LARGE CAP<br>VALUE<br>FUND | VALUE<br>PLUS<br>FUND | U.S. GOVERNMENT<br>SECURITIES<br>FUND |
|--|---------------------------------|---------------|--------------------------|----------------------------|-----------------------|---------------------------------------|
|--|---------------------------------|---------------|--------------------------|----------------------------|-----------------------|---------------------------------------|



| <S>          | <C>       | <C>       | <C>    | <C>   | <C>     | <C>      |
|--------------|-----------|-----------|--------|-------|---------|----------|
| Appreciation | \$ 32,135 | \$397,695 | \$ 376 | \$ 90 | \$7,119 | \$ 948   |
| Depreciation | (19,231)  | (80,165)  | (43)   | (11)  | (317)   | (1,143)  |
|              | \$ 12,904 | \$317,530 | \$ 333 | \$ 79 | \$6,802 | \$ (195) |

</TABLE>

Cost of investments is substantially the same for financial reporting purposes and federal income tax purposes.

(6) SOURCES OF NET ASSETS

At December 31, 1996, the Funds' sources of net assets were as follows:

<TABLE>

<CAPTION>

|   | SMALL CAP<br>CONTRARIAN<br>FUND | VALUE<br>FUND   | MID CAP<br>VALUE<br>FUND |
|---|---------------------------------|-----------------|--------------------------|
| <S>   | <C>                             | <C>             | <C>                      |
| Paid-in capital   | \$250,107,871                   | \$1,309,230,296 | \$ 6,604,292             |
| Net unrealized appreciation<br>on investments                   | 12,903,525                      | 317,748,290     | 333,274                  |
| Accumulated undistributed net realized<br>losses on investments | --                              | (218,750)       | (3,604)                  |
|   | \$263,011,396                   | \$1,626,759,836 | \$ 6,933,962             |

<CAPTION>

|   | LARGE CAP<br>VALUE<br>FUND | VALUE<br>PLUS<br>FUND | U.S. GOVERNMENT<br>SECURITIES<br>FUND |
|---|----------------------------|-----------------------|---------------------------------------|
| <S>   | <C>                        | <C>                   | <C>                                   |
| Paid-in capital   | \$ 2,363,470               | \$ 59,780,687         | \$ 57,707,484                         |
| Net unrealized appreciation<br>(depreciation) on investments    | 79,076                     | 6,801,499             | (195,078)                             |
| Accumulated undistributed net<br>realized losses on investments | (1,071)                    | --                    | (5,799,443)                           |
|   | \$ 2,441,475               | \$ 66,582,186         | \$ 51,712,963                         |

</TABLE>

(7) TRANSACTIONS WITH AFFILIATES

The following companies are affiliated with the Small Cap Contrarian and Value Funds; that is, the Funds hold 5% or more of the outstanding voting securities. Such companies are defined in Section (2) (a) (3) of the Investment Company Act of 1940.

SMALL CAP CONTRARIAN FUND

<TABLE>

<CAPTION>

| SECURITY NAME                                 | SHARE<br>BALANCE AT<br>DEC. 31,1995 | PURCHASES | SALES   | SHARE<br>BALANCE AT<br>DEC. 31,1996 | DIVIDENDS<br>RECEIVED | REALIZED<br>GAINS<br>(LOSSES) |
|---|-------------------------------------|-----------|---------|-------------------------------------|-----------------------|-------------------------------|
| <S>   | <C>                                 | <C>       | <C>     | <C>                                 | <C>                   | <C>                           |
| Allou Health and Beauty, Inc. (Class A)       | 355,400                             | 149,600   | 0       | 505,000                             | \$0                   | \$0                           |
| Autonomous Technologies Corp.                 | 0                                   | 500,000   | 0       | 500,000                             | 0                     | 0                             |
| Bio-Vascular, Inc.                            | 0                                   | 500,000   | 0       | 500,000                             | 0                     | 0                             |
| Business Resource Group                       | 0                                   | 313,500   | 0       | 313,500                             | 0                     | 0                             |
| Catherines Stores Corporation                 | 0                                   | 433,000   | 0       | 433,000                             | 0                     | 0                             |
| Chico's Fas, Inc.                             | 250,000                             | 250,000   | 100,000 | 400,000                             | 0                     | 646,686                       |
| Children's Discovery Centers of America, Inc. | 0                                   | 400,000   | 0       | 400,000                             | 0                     | 0                             |

|  |             |           |        |           |       |           |
|--|-------------|-----------|--------|-----------|-------|-----------|
| Compression Labs, Inc.   | 0           | 1,065,600 | 0      | 1,065,600 | 0     | 0         |
| Crown Books Corporation  | 35,700      | 289,300   | 0      | 325,000   | 0     | 0         |
| Dignity Partners, Inc.   | 0           | 400,000   | 0      | 400,000   | 0     | 0         |
| Drypers Corp. 7.5% Sr. Conv. Cum. Pfd.                         | 0           | 22,500    | 0      | 22,500    | 0     | 0         |
| Dynamic Materials Corporation                                  | 20,000      | 230,000   | 50,000 | 200,000   | 0     | 239,563   |
| Excelsior-Henderson Motorcycle Mfg. Co.<br>Series A Conv. Pfd. | 0           | 690,000   | 0      | 690,000   | 0     | 0         |
| Family Steak Houses of Florida, Inc.                           | 360,000     | 340,000   | 0      | 700,000   | 0     | 0         |
| GNI Group, Inc.  | 138,000     | 462,000   | 0      | 600,000   | 0     | 0         |
| Harding Lawson Associates Group, Inc.                          | 200,000     | 275,000   | 0      | 475,000   | 0     | 0         |
| Harmony Brook, Inc.  | 700,000     | 0         | 0      | 700,000   | 0     | 0         |
| Help at Home, Inc.   | 0           | 100,000   | 0      | 100,000   | 0     | 0         |
| Interpore International  | 516,700     | 83,300    | 0      | 600,000   | 0     | 0         |
| Jaco Electronics, Inc.   | 0           | 343,500   | 0      | 343,500   | 0     | 0         |
| The Lion Brewery, Inc.   | 0           | 300,000   | 0      | 300,000   | 0     | 0         |
| Luminart, Inc.   | 0           | 1,000,000 | 0      | 1,000,000 | 0     | 0         |
| Moore Medical Corporation                                      | 58,000      | 142,000   | 0      | 200,000   | 0     | 0         |
| M-Wave, Inc.   | 0           | 264,800   | 0      | 264,800   | 0     | 0         |
| New Brunswick Scientific, Inc.                                 | 138,705 (1) | 92,400    | 0      | 231,105   | 0     | p         |
| O. I. Corporation  | 0           | 275,000   | 0      | 275,000   | 0     | 0         |
| Personnel Management, Inc.                                     | 200,000     | 0         | 0      | 200,000   | 0     | 0         |
| PolyVision Corporation   | 0           | 600,000   | 0      | 600,000   | 0     | 0         |
| Serv-Tech, Inc.  | 446,400     | 13,600    | 50,000 | 410,000   | 0     | (208,738) |
| Speizman Industries, Inc.                                      | 0           | 342,600   | 52,600 | 290,000   | 0     | 105,138   |
| Tipperary Corp.  | 0           | 1,000,000 | 0      | 1,000,000 | 0     | 0         |
| UniComp, Inc.  | 0           | 300,000   | 0      | 300,000   | 0     | 0         |
| Union Bankshares, Ltd.   | 60,000      | 0         | 2,500  | 57,500    | 0     | 15,000    |
| Vectra Technologies, Inc.                                      | 502,000     | 148,000   | 0      | 650,000   | 0     | 0         |
|  |             |           |        |           | ----- | -----     |
|  |             |           |        |           | \$0   | \$797,649 |
|  |             |           |        |           | ===== | =====     |

</TABLE>

(1) Adjusted for 5% stock dividend.

57

76

VALUE FUND

<TABLE>  
<CAPTION>

| SECURITY NAME                                 | SHARE<br>BALANCE AT<br>DEC. 31,1995 | PURCHASES | SALES   | SHARE<br>BALANCE AT<br>DEC. 31,1996 | DIVIDENDS<br>RECEIVED | REALIZED<br>GAINS<br>(LOSSES) |
|---|-------------------------------------|-----------|---------|-------------------------------------|-----------------------|-------------------------------|
| <S>   | <C>                                 | <C>       | <C>     | <C>                                 | <C>                   | <C>                           |
| 3-D Geophysical, Inc.                         | 0                                   | 500,000   | 0       | 500,000                             | \$ 0                  | \$ 0                          |
| Align-Rite International, Inc.                | 0                                   | 491,000   | 191,000 | 300,000                             | 0                     | 306,789                       |
| Allied Healthcare Products, Inc.              | 181,200                             | 439,000   | 117,200 | 503,000                             | 56,000                | (1,022,683)                   |
| Allwaste, Inc.                                | 2,843,300                           | 956,700   | 0       | 3,800,000                           | 0                     | 0                             |
| Alpine Group, Inc.                            | 1,000,000                           | 100,000   | 0       | 1,100,000                           | 0                     | 0                             |
| American Buildings Company                    | 0                                   | 500,000   | 0       | 500,000                             | 0                     | 0                             |
| American Educational Products, Inc.           | 405,000                             | 0         | 0       | 405,000                             | 0                     | 0                             |
| American Oilfield Divers, Inc.                | 500,000                             | 0         | 0       | 500,000                             | 0                     | 0                             |
| Amtran, Inc.                                  | 500,000                             | 100,000   | 0       | 600,000                             | 0                     | 0                             |
| Amwest Insurance Group, Inc.                  | 200,000                             | 10,000    | 10,000  | 200,000                             | 86,900                | 994                           |
| Arden Industrial Products, Inc.               | 206,500                             | 443,500   | 0       | 650,000                             | 0                     | 0                             |
| Astec Industries, Inc.                        | 1,000,000                           | 0         | 35,000  | 965,000                             | 0                     | (122,500)                     |
| Badger Meter, Inc.                            | 100,000                             | 0         | 0       | 100,000                             | 86,000                | 0                             |
| Baldwin Piano & Organ Company                 | 325,000                             | 0         | 0       | 325,000                             | 0                     | 0                             |
| Buckhead America Corporation                  | 116,000                             | 34,000    | 0       | 150,000                             | 0                     | 0                             |
| Caretenders Health Corp.                      | 243,900                             | 65,000    | 0       | 308,900                             | 0                     | 0                             |
| CHC Helicopter Corporation (Class A)          | 0                                   | 1,000,000 | 0       | 1,000,000                           | 0                     | 0                             |
| The Cherry Corporation (Class A)              | 500,000                             | 400,100   | 50,000  | 850,100                             | 0                     | 0                             |
| Children's Broadcasting Corporation           | 0                                   | 410,100   | 0       | 410,100                             | 0                     | 0                             |
| Clayton Williams Energy, Inc. (a)             | 505,000                             | 120,000   | 25,000  | 600,000                             | 0                     | (19,374)                      |
| CMAC Investment Corporation (a)               | 565,700 (1)                         | 34,300    | 0       | 600,000                             | 74,120                | 3,089,002                     |
| Coastal Physicians Group, Inc.                | 1,000,000                           | 1,020,000 | 20,000  | 2,000,000                           | 0                     | (198,916)                     |
| Cobra Electronics Corp.                       | 481,000                             | 19,000    | 0       | 500,000                             | 0                     | 0                             |
| Comdial Corporation                           | 0                                   | 650,000   | 0       | 650,000                             | 0                     | 0                             |
| CSP, Inc.                                     | 280,000                             | 0         | 0       | 280,000                             | 0                     | 0                             |
| C.P. Clare Corporation                        | 0                                   | 467,500   | 0       | 467,500                             | 0                     | 0                             |
| D & N Financial Corporation                   | 169,600                             | 230,400   | 0       | 400,000                             | 0                     | 0                             |
| Dairy Mart Convenience Stores, Inc. (Class A) | 450,000                             | 0         | 0       | 450,000                             | 0                     | 0                             |
| Dakotah, Inc.                                 | 150,500                             | 149,500   | 0       | 300,000                             | 0                     | 0                             |
| Damark International, Inc. (Class A)          | 900,000                             | 2,800     | 102,800 | 800,000                             | 0                     | 740,072                       |
| Datron Systems, Inc.                          | 0                                   | 233,700   | 0       | 233,700                             | 0                     | 0                             |
| Designs, Inc.                                 | 978,200                             | 121,800   | 138,000 | 962,000                             | 0                     | (423,989)                     |
| Devlieg-Bullard, Inc.                         | 692,500                             | 0         | 0       | 692,500                             | 0                     | 0                             |
| Digital Biometrics, Inc.                      | 0                                   | 940,000   | 55,000  | 885,000                             | 0                     | 89,764                        |

|   |           |           |         |           |        |           |
|---|-----------|-----------|---------|-----------|--------|-----------|
| Duckwall-ALCO Stores, Inc.              | 290,000   | 40,000    | 0       | 330,000   | 0      | 0         |
| ECC International Corporation           | 504,900   | 245,100   | 150,000 | 600,000   | 0      | (783,484) |
| Effective Management Systems, Inc.      | 350,000   | 0         | 0       | 350,000   | 0      | 0         |
| Engle Homes, Inc.                       | 500,000   | 81,500    | 0       | 581,500   | 86,520 | 0         |
| Eskimo Pie Corporation                  | 0         | 360,000   | 16,000  | 344,000   | 39,200 | (71,377)  |
| Evergreen Resources, Inc.               | 518,500   | 41,500    | 0       | 560,000   | 0      | 0         |
| The Female Health Company               | 0         | 595,000   | 9,900   | 585,100   | 0      | 6,911     |
| FLIR Systems, Inc.                      | 155,600   | 198,400   | 0       | 354,000   | 0      | 0         |
| Forest Oil Corporation                  | 0         | 1,560,000 | 0       | 1,560,000 | 0      | 0         |
| The Fortress Group, Inc.                | 0         | 590,000   | 0       | 590,000   | 0      | 0         |
| Gehl Company (a)                        | 311,500   | 90,000    | 0       | 401,500   | 0      | 0         |
| Gibson Greetings, Inc. (a)              | 1,200,600 | 0         | 0       | 1,200,600 | 0      | 0         |
| Gish Biomedical, Inc.                   | 200,000   | 75,000    | 0       | 275,000   | 0      | 0         |
| Grist Mill Company                      | 0         | 350,000   | 0       | 350,000   | 0      | 0         |
| GZA GeoEnvironmental Technologies, Inc. | 363,300   | 9,400     | 0       | 372,700   | 0      | 0         |
| Hallwood Consolidated Resources Group   | 100,000   | 0         | 0       | 100,000   | 0      | 0         |
| Hanover Foods Corp. (Class A)           | 34,500    | 16,000    | 0       | 50,500    | 0      | 0         |
| Harmony Brook, Inc.                     | 720,000   | 0         | 0       | 720,000   | 0      | 0         |
| Health Power, Inc.                      | 242,400   | 107,600   | 75,000  | 275,000   | 0      | (574,954) |
| HealthRite, Inc.                        | 365,000   | 38,000    | 0       | 403,000   | 0      | 0         |
| HMN Financial, Inc.                     | 250,000   | 0         | 0       | 250,000   | 0      | 0         |

</TABLE>

58

77

VALUE FUND [CONT'D]

<TABLE>  
<CAPTION>

| SECURITY NAME   | SHARE<br>BALANCE AT<br>DEC. 31, 1995 | PURCHASES | SALES   | SHARE<br>BALANCE AT<br>DEC. 31, 1996 | DIVIDENDS<br>RECEIVED | REALIZED<br>GAINS<br>(LOSSES) |
|---|--------------------------------------|-----------|---------|--------------------------------------|-----------------------|-------------------------------|
| <S>   | <C>                                  | <C>       | <C>     | <C>                                  | <C>                   | <C>                           |
| Home Federal Bancorp  | 0(2)                                 | 193,500   | 0       | 193,500                              | \$ 45,150             | \$ 0                          |
| Hospital Staffing Services, Inc.  | 620,000                              | 1,300     | 1,300   | 620,000                              | 0                     | 1,229                         |
| ICN Pharmaceuticals, Inc.   | 2,100,005                            | 1,099,995 | 50,000  | 3,150,000                            | 605,390               | (242,245)                     |
| IEC Electronics Corporation   | 653,100                              | 46,900    | 0       | 700,000                              | 0                     | 0                             |
| Interdigital Communications Corp.   | 0                                    | 3,100,000 | 110,000 | 2,990,000                            | 0                     | (548,370)                     |
| Iwerks Entertainment, Inc.  | 1,000,000                            | 456,000   | 600,000 | 856,000                              | 0                     | 3,360,034                     |
| Kaye Group, Inc.  | 0                                    | 353,600   | 0       | 353,600                              | 17,680                | 0                             |
| Kentucky Electric Steel, Inc.   | 240,000                              | 210,000   | 0       | 450,000                              | 0                     | 0                             |
| LCS Industries, Inc.  | 368,500                              | 12,500    | 68,500  | 312,500                              | 32,840                | 1,588,339                     |
| Marten Transport, Ltd.  | 212,000                              | 0         | 0       | 212,000                              | 0                     | 0                             |
| Maxicare Health Plans, Inc.   | 750,000                              | 571,100   | 188,100 | 1,133,000                            | 0                     | 3,063,376                     |
| Meadowbrook Rehabilitation Group, Inc.  | 159,166(3)                           | 27,500    | 0       | 186,666                              | 0                     | 0                             |
| Medical Graphics Corporation  | 243,700                              | 0         | 0       | 243,700                              | 0                     | 0                             |
| Mercury Air Group, Inc.   | 247,300(4)                           | 252,700   | 0       | 500,000                              | 18,373                | 0                             |
| MFRI, Inc.  | 300,000                              | 0         | 0       | 300,000                              | 0                     | 0                             |
| Minntech Corporation  | 0                                    | 457,500   | 0       | 457,500                              | 31,640                | 0                             |
| Morgan Products, Ltd.   | 418,800                              | 331,200   | 0       | 750,000                              | 0                     | 0                             |
| MTL, Inc. (a)   | 150,000                              | 159,000   | 0       | 300,000                              | 0                     | 0                             |
| MYR Group, Inc.   | 260,000                              | 40,000    | 0       | 300,000                              | 60,000                | 0                             |
| M/A/R/C, Inc.   | 269,000                              | 0         | 19,000  | 250,000                              | 103,800               | 243,237                       |
| Netframe Systems, Inc.  | 280,000                              | 720,000   | 0       | 1,000,000                            | 0                     | 0                             |
| Norstan, Inc.   | 552,000(5)                           | 0         | 0       | 552,000                              | 0                     | 0                             |
| North Star Universal, Inc.  | 700,000                              | 0         | 0       | 700,000                              | 0                     | 0                             |
| Northwest Equity Corporation  | 100,000                              | 0         | 10,000  | 90,000                               | 36,000                | 13,375                        |
| Old America Stores, Inc.  | 0                                    | 345,800   | 0       | 345,800                              | 0                     | 0                             |
| Oneita Industries, Inc.   | 322,900                              | 465,800   | 188,700 | 600,000                              | 0                     | (1,191,027)                   |
| Outlook Group Corporation   | 300,000                              | 165,000   | 7,500   | 457,500                              | 0                     | (46,752)                      |
| Patrick Industries, Inc.  | 250,000                              | 62,000    | 0       | 312,000                              | 46,960                | 0                             |
| Peoples Telephone Company, Inc.   | 1,500,000                            | 0         | 104,000 | 1,396,000                            | 0                     | (6,138)                       |
| Pinnacle Bancorp<br>(formerly First Federal of Alabama F.S.B.)                | 67,800                               | 0         | 0       | 67,800                               | 48,816                | 0                             |
| Pioneer Financial Services, Inc.  | 374,000                              | 226,000   | 0       | 600,000                              | 121,000               | 0                             |
| Polymedica Industries, Inc.   | 0                                    | 550,000   | 0       | 550,000                              | 0                     | 0                             |
| Powell Industries, Inc.   | 600,000                              | 0         | 0       | 600,000                              | 0                     | 0                             |
| Presidential Life Corporation   | 1,700,000                            | 0         | 0       | 1,700,000                            | 255,000               | 0                             |
| Professionals Insurance Co. Mgmt. Group<br>(formerly Picom Insurance Company) | 205,700(6)                           | 14,300    | 0       | 220,000                              | 0                     | 0                             |
| Quixote Corporation   | 424,400                              | 175,600   | 38,000  | 562,000                              | 131,040               | 0                             |
| Ramsay Health Care, Inc.  | 520,000                              | 0         | 0       | 520,000                              | 0                     | 0                             |
| Rehabiliticare, Inc.  | 438,000                              | 0         | 38,000  | 400,000                              | 0                     | 77,255                        |
| Rexworks, Inc.  | 185,500                              | 0         | 0       | 185,500                              | 0                     | 0                             |
| Rhodes, Inc.  | 0                                    | 711,700   | 59,900  | 651,800                              | 0                     | (298,700)                     |
| RightCHOICE Managed Care, Inc. (Class A)                                      | 793,800                              | 206,200   | 0       | 1,000,000                            | 0                     | 0                             |
| Rottlund Company, Inc.  | 156,500                              | 159,500   | 0       | 316,000                              | 0                     | 0                             |
| Schult Homes Corporation  | 350,000                              | 0         | 10,000  | 340,000                              | 69,500                | 78,367                        |
| Specialty Paperboard, Inc.  | 250,000                              | 0         | 0       | 250,000                              | 0                     | 0                             |
| Star Multi Care Services, Inc.  | 224,492(7)                           | 0         | 0       | 224,492                              | 0                     | 0                             |
| Starcraft Corporation   | 315,500                              | 84,500    | 0       | 400,000                              | 0                     | 0                             |
| Steel of West Virginia, Inc.  | 0                                    | 590,000   | 0       | 590,000                              | 0                     | 0                             |

|                                 |         |         |         |         |        |           |
|---------------------------------|---------|---------|---------|---------|--------|-----------|
| Sterling Financial Corporation  | 275,000 | 0       | 0       | 275,000 | 0      | 0         |
| Stokely USA, Inc.               | 457,000 | 343,000 | 160,000 | 640,000 | 0      | (597,198) |
| Strattec Security Corporation   | 200,000 | 300,000 | 0       | 500,000 | 0      | 0         |
| St. Mary Land & Exploration Co. | 490,000 | 10,000  | 40,000  | 460,000 | 79,000 | 192,875   |
| Sullivan Dental Products, Inc.  | 540,000 | 0       | 0       | 540,000 | 81,000 | 0         |
| Sunrise Resources, Inc.         | 400,000 | 0       | 0       | 400,000 | 0      | 0         |

</TABLE>

59

78

VALUE FUND [CONT'D]

<TABLE>  
<CAPTION>

| SECURITY NAME                      | SHARE                      |           |         | SHARE                      |                       | REALIZED<br>GAINS<br>(LOSSES) |
|------------------------------------|----------------------------|-----------|---------|----------------------------|-----------------------|-------------------------------|
|                                    | BALANCE AT<br>DEC. 31,1995 | PURCHASES | SALES   | BALANCE AT<br>DEC. 31,1996 | DIVIDENDS<br>RECEIVED |                               |
| <S>                                | <C>                        | <C>       | <C>     | <C>                        | <C>                   | <C>                           |
| Technology Research Corporation    | 500,000                    | 0         | 0       | 500,000                    | \$ 120,000            | \$ 0                          |
| Tesoro Petroleum Corp.             | 0                          | 1,500,000 | 100,000 | 1,400,000                  | 0                     | 211,437                       |
| Thorn Apple Valley, Inc.           | 276,100                    | 144,900   | 0       | 421,000                    | 0                     | 0                             |
| Timber Lodge Steakhouse, Inc.      | 250,000                    | 50,000    | 0       | 300,000                    | 0                     | 0                             |
| Todhunter International, Inc.      | 490,000                    | 0         | 0       | 490,000                    | 0                     | 0                             |
| Total-Tel USA Communications, Inc. | 289,000 (8)                | 0         | 0       | 289,000                    | 0                     | 0                             |
| Trak Auto Corporation              | 366,500                    | 0         | 0       | 366,500                    | 0                     | 0                             |
| Transitional Hospitals Corp.       | 0                          | 2,413,500 | 0       | 2,413,500                  | 0                     | 0                             |
| Transworld Bancorp                 | 176,775 (9)                | 0         | 0       | 176,775                    | 0                     | 0                             |
| Trimark Holdings, Inc.             | 400,000                    | 0         | 0       | 400,000                    | 0                     | 0                             |
| UNC, Inc. (a)                      | 1,100,000                  | 0         | 0       | 1,100,000                  | 0                     | 0                             |
| URS Corporation                    | 700,100                    | 299,900   | 140,000 | 860,000                    | 0                     | 237,439                       |
| Vectra Technologies, Inc.          | 700,000                    | 23,500    | 0       | 723,500                    | 0                     | 0                             |
| Westbridge Capital Corporation     | 500,000                    | 0         | 0       | 500,000                    | 0                     | 0                             |
| Weston, Roy F., Inc. (Class A)     | 100,000                    | 450,000   | 0       | 550,000                    | 0                     | 0                             |
|                                    |                            |           |         |                            | -----                 | -----                         |
|                                    |                            |           |         |                            | \$2,331,929           | \$7,152,788                   |
|                                    |                            |           |         |                            | =====                 | =====                         |

</TABLE>

- (1) Adjusted for 2 for 1 stock split.
- (2) Adjusted for 3 for 2 stock split.
- (3) Adjusted for 1 for 3 reverse stock split.
- (4) Adjusted for 10% stock dividend.
- (5) Adjusted for 2 for 1 stock split.
- (6) Adjusted for 10% stock dividend.
- (7) Adjusted for 5% stock dividend.
- (8) Adjusted for 2 for 1 stock split.
- (9) Adjusted for 5 for 4 stock split.

(a) Short sales against the box have not been reflected in the "Sales" information or Dec. 31, 1996 balances.

SHAREHOLDER UPDATE (UNAUDITED)

A Special Meeting of the shareholders of the Heartland Value & Income Fund (currently the Value Plus Fund) was held on September 26, 1996, at which votes were cast for two proposals as follows:

1. To approve a proposed amendment to the fundamental investment objective of the Value & Income Fund to change the investment objective from "capital growth and current income" to "capital appreciation and current income." For: 1,167,874. Against: 68,339. Abstain: 33,271.
2. To approve a proposed amendment to a fundamental investment restriction of the Value & Income Fund concerning Real Estate Investment Trusts ("REITs") and to adopt a new non-fundamental investment policy concerning REITs. For: 1,098,418. Against: 105,366. Abstain: 55,854.

60

79

VALUE REPORT

Dear Investor

We are here to help you meet your investment needs.

If you have a question, please call Heartland Shareholder Services. We're confident you'll find our representatives to be knowledgeable and responsive.

1-800-432-7856

[Logo] Heartland Funds  
-----  
AMERICA'S VALUE INVESTOR

80

THE HEARTLAND FAMILY OF FUNDS

SMALL CAP CONTRARIAN FUND

VALUE FUND

(closed to new investors 7/1/95)

MID CAP VALUE FUND    NEW

LARGE CAP VALUE FUND    NEW

VALUE PLUS FUND

U.S. GOVERNMENT SECURITIES FUND

WISCONSIN TAX FREE FUND

SHORT DURATION HIGH-YIELD  
MUNICIPAL FUND    NEW

HIGH-YIELD MUNICIPAL  
BOND FUND    NEW

PORTICO MONEY MARKET FUND

[LOGO] Heartland Funds  
-----  
AMERICA'S VALUE INVESTOR

1-800-432-7856

These are not recommendations to buy or sell the securities discussed, but rather illustrations of our value investment strategy. Statements regarding particular securities represent the portfolio manager's views when made and are subject to change at any time based on market and other considerations.

The performance data quoted represents past performance. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

This material may only be used when preceded or accompanied by the Funds' prospectus. Heartland Advisors, Inc., distributor. Member SIPC/NASD.