

The Heritage Foundation and Affiliates

Consolidated Financial Report
December 31, 2019

Contents

Independent auditor's report	1-2
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Financial statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of functional expenses	5-6
Consolidated statements of cash flows	7
Notes to consolidated financial statements	8-23



RSM US LLP

Independent Auditor's Report

Board of Trustees
The Heritage Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Heritage Foundation and Affiliates (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Heritage Foundation and Affiliates as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Washington, D.C.
June 19, 2020

The Heritage Foundation and Affiliates

Consolidated Statements of Financial Position December 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,722,225	\$ 9,856,972
Contributions receivable	5,474,168	11,134,133
Prepayments and other assets	846,062	1,171,750
Total current assets	16,042,455	22,162,855
Long-term assets:		
Investments	256,723,421	180,051,282
Deferred compensation investments	2,902,306	2,415,100
Contributions receivable, net	3,941,692	4,545,249
Property and equipment, net	86,153,974	84,630,621
Cash surrender value of insurance	-	882,107
Total long-term assets	349,721,393	272,524,359
Total assets	\$ 365,763,848	\$ 294,687,214
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 9,257,260	\$ 8,205,142
Notes payable	393,261	375,130
Total current liabilities	9,650,521	8,580,272
Long-term liabilities:		
Notes payable	21,906,315	21,881,703
Deferred compensation obligations	2,902,306	2,415,100
Split-interest obligations	9,807,873	11,185,069
Total long-term liabilities	34,616,494	35,481,872
Total liabilities	44,267,015	44,062,144
Net assets:		
Without donor restrictions:		
Board designated	128,813,089	114,731,352
Undesignated	105,353,172	76,859,233
Total without donor restrictions:	234,166,261	191,590,585
With donor restrictions	87,330,572	59,034,485
Total net assets	321,496,833	250,625,070
Total liabilities and net assets	\$ 365,763,848	\$ 294,687,214

See notes to consolidated financial statements.

The Heritage Foundation and Affiliates

**Consolidated Statements of Activities
Years Ended December 31, 2019 and 2018**

	2019	2018
Changes in net assets without donor restrictions:		
Support and revenue:		
Public support – contributions	\$ 87,405,090	\$ 62,654,043
Investment gain (loss), net	24,393,214	(11,390,089)
Rental and other income	2,086,464	4,256,358
Net assets released from restriction – satisfaction of time or program restrictions	6,909,217	8,954,653
Total support and revenue in net assets without donor restrictions	120,793,985	64,474,965
Expenses:		
Program services:		
Research	27,807,027	25,772,435
Media and government relations	9,157,167	8,847,201
Educational programs	25,743,628	28,881,069
Total program services	62,707,822	63,500,705
Supporting services:		
Management and general	1,652,849	1,409,745
Fundraising	13,857,638	15,147,472
Total supporting services	15,510,487	16,557,217
Total expenses	78,218,309	80,057,922
Change in net assets without donor restrictions	42,575,676	(15,582,957)
Changes in net assets with donor restrictions:		
Contributions	29,849,669	13,615,831
Investment gain (loss), net	6,232,543	(2,660,714)
Change in value of split-interest agreements	(432,748)	(774,003)
Change in value of pledges and irrevocable trusts	(59,160)	259,858
Pledges rescinded	(385,000)	(1,075,846)
Net assets released from restrictions	(6,909,217)	(8,954,653)
Change in net assets with donor restrictions	28,296,087	410,473
Change in net assets	70,871,763	(15,172,484)
Net assets:		
Beginning	250,625,070	265,797,554
Ending	\$ 321,496,833	\$ 250,625,070

See notes to consolidated financial statements.

The Heritage Foundation and Affiliates

Consolidated Statement of Functional Expenses
Year Ended December 31, 2019

	Program Services				Supporting Services			Total Expenses
	Research	Media and Government Relations	Educational Programs	Total	Management and General	Fundraising	Total	
Salaries	\$ 16,725,744	\$ 3,588,179	\$ 5,525,309	\$ 25,839,232	\$ 533,790	\$ 4,027,640	\$ 4,561,430	\$ 30,400,662
Consultants and independent contractors	823,831	1,200,806	3,832,470	5,857,107	115,851	2,571,786	2,687,637	8,544,744
Fringe benefits	3,823,382	1,033,017	1,603,949	6,460,348	132,043	1,176,167	1,308,210	7,768,558
Printing and copying	93,787	71,684	4,001,222	4,166,693	12,247	1,135,665	1,147,912	5,314,605
Postage and shipping	23,441	37,048	4,133,572	4,194,061	2,752	1,031,672	1,034,424	5,228,485
Conferences and meetings	1,551,512	1,473,607	946,331	3,971,450	195,025	622,188	817,213	4,788,663
Depreciation	1,398,319	460,482	1,290,273	3,149,074	83,116	696,853	779,969	3,929,043
Advertising	105	34	501,619	501,758	28	670,487	670,515	1,172,273
Occupancy	1,037,410	341,872	980,427	2,359,709	369,022	142,515	511,537	2,871,246
Taxes, licenses, and bank fees	31,593	10,533	146,142	188,268	6,585	234,863	241,448	429,716
Information technology	788,663	291,552	1,565,788	2,646,003	54,113	834,861	888,974	3,534,977
Professional fees	94,570	31,143	102,218	227,931	31,710	23,441	55,151	283,082
Supplies	43,237	13,417	39,313	95,967	10,816	25,192	36,008	131,975
Travel	707,847	254,393	170,734	1,132,974	23,688	393,610	417,298	1,550,272
Staff training	73,030	19,742	53,011	145,783	14,148	33,425	47,573	193,356
Dues and subscriptions	104,387	160,738	37,349	302,474	6,240	53,433	59,673	362,147
Photography and video	15,275	14,469	233,301	263,045	1,783	7,392	9,175	272,220
Interest expense	217,103	71,494	200,327	488,924	12,905	108,193	121,098	610,022
Insurance	101,541	33,439	114,922	249,902	41,045	13,451	54,496	304,398
Honoraria and writer's fees	72,100	2,600	17,505	92,205	-	2,300	2,300	94,505
Books and products	34,130	8,811	91,115	134,056	4,942	46,002	50,944	185,000
Miscellaneous	8,020	2,370	6,731	17,121	1,000	6,502	7,502	24,623
Other programs and grants	38,000	35,737	150,000	223,737	-	-	-	223,737
Total expenses	\$ 27,807,027	\$ 9,157,167	\$ 25,743,628	\$ 62,707,822	\$ 1,652,849	\$ 13,857,638	\$ 15,510,487	\$ 78,218,309

See notes to consolidated financial statements.

The Heritage Foundation and Affiliates

Consolidated Statement of Functional Expenses Year Ended December 31, 2018

	Program Services				Supporting Services			Total Expenses
	Research	Media and Government Relations	Educational Programs	Total	Management and General	Fundraising	Total	
Salaries	\$ 15,690,157	\$ 3,473,929	\$ 5,894,085	\$ 25,058,171	\$ 496,474	\$ 4,034,999	\$ 4,531,473	\$ 29,589,644
Consultants and independent contractors	719,929	1,234,217	3,236,378	5,190,524	77,602	2,600,050	2,677,652	7,868,176
Fringe benefits	3,717,910	1,011,421	1,852,562	6,581,893	129,201	1,248,557	1,377,758	7,959,651
Printing and copying	42,641	117,955	6,142,359	6,302,955	2,135	1,185,071	1,187,206	7,490,161
Postage and shipping	14,536	31,055	4,832,201	4,877,792	1,999	847,708	849,707	5,727,499
Conferences and meetings	790,345	1,209,480	396,415	2,396,240	41,246	1,587,791	1,629,037	4,025,277
Depreciation	1,361,046	467,222	1,520,238	3,348,506	74,438	799,940	874,378	4,222,884
Advertising	988	47	70,246	71,281	40	540,684	540,724	612,005
Occupancy	1,058,103	362,680	1,189,563	2,610,346	387,967	159,291	547,258	3,157,604
Taxes, licenses, and bank fees	41,907	14,922	820,177	877,006	7,716	314,961	322,677	1,199,683
Information technology	799,604	220,930	1,767,995	2,788,529	33,700	851,253	884,953	3,673,482
Professional fees	80,003	27,464	93,248	200,715	39,768	23,884	63,652	264,367
Supplies	60,212	20,319	70,616	151,147	9,335	25,296	34,631	185,778
Travel	664,776	240,641	190,621	1,096,038	19,185	606,050	625,235	1,721,273
Staff training	115,794	42,369	100,680	258,843	24,317	26,316	50,633	309,476
Dues and subscriptions	182,724	158,117	61,489	402,330	6,132	54,859	60,991	463,321
Photography and video	3,187	5,460	160,964	169,611	612	29,523	30,135	199,746
Interest expense	247,948	85,116	276,949	610,013	13,563	145,729	159,292	769,305
Insurance	79,140	27,167	94,396	200,703	40,168	11,453	51,621	252,324
Honoraria and writer's fees	44,400	1,000	12,033	57,433	-	-	-	57,433
Books and products	23,006	49,957	79,637	152,600	2,969	37,526	40,495	193,095
Miscellaneous	9,079	3,023	18,217	30,319	1,178	16,531	17,709	48,028
Other programs and grants	25,000	42,710	-	67,710	-	-	-	67,710
Total expenses	\$ 25,772,435	\$ 8,847,201	\$ 28,881,069	\$ 63,500,705	\$ 1,409,745	\$ 15,147,472	\$ 16,557,217	\$ 80,057,922

See notes to consolidated financial statements.

The Heritage Foundation and Affiliates

Consolidated Statements of Cash Flows Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 70,871,763	\$ (15,172,484)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gain) loss on investments	(30,213,847)	14,424,767
Change in value of split-interest obligations	570,475	774,003
Increase in discount on contributions receivable	(78,568)	(103,961)
Change in value of terminated split-interest obligations	1,128,744	235,536
Depreciation	3,929,044	4,222,884
Loss on disposal of assets	110,707	1,665,320
Change in value of interest rate swap	417,870	(323,142)
Pledges rescinded	385,000	1,075,846
Contributions restricted to investment in perpetuity	(28,035,681)	(5,450,175)
Contributions restricted to capital expenditures	(253,250)	(5,696,462)
Contributed property	-	(100,000)
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	5,957,090	(2,205,925)
Prepayments and other assets	325,688	(411,536)
Change in cash surrender value of life insurance	882,107	60,359
Increase (decrease) in:		
Accounts payable and accrued expenses	1,052,118	(1,242,758)
Net cash provided by (used in) operating activities	27,049,260	(8,247,728)
Cash flows from investing activities:		
Purchases of investments	(60,302,074)	(8,478,876)
Sales of investments	13,351,874	18,508,487
Purchases of property and equipment	(5,563,108)	(5,211,813)
Net cash (used in) provided by investing activities	(52,513,308)	4,817,798
Cash flows from financing activities:		
Proceeds from notes payable	-	1,000,000
Principal payments on notes payable	(375,123)	(4,628,054)
Proceeds from the line of credit	6,912,757	11,228,342
Payments on the line of credit	(6,912,757)	(11,228,342)
Contributions restricted to investment in perpetuity	28,035,681	5,450,175
Contributions restricted to capital expenditures	253,250	5,696,462
Payments on split interest obligations	(3,076,415)	(1,778,538)
Proceeds from split interest obligations	491,908	514,145
Net cash provided by financing activities	25,329,301	6,254,190
Net (decrease) increase in cash and cash equivalents	(134,747)	2,824,260
Cash and cash equivalents:		
Beginning	9,856,972	7,032,712
Ending	\$ 9,722,225	\$ 9,856,972
Supplemental disclosures of cash flow information:		
Interest paid	\$ 1,004,006	\$ 1,139,937
Net decrease in cash surrender value of life insurance	\$ (882,107)	\$ (60,359)

See notes to consolidated financial statements.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Heritage Foundation and Affiliates (the Foundation) is composed of the following entities: The Heritage Foundation, 3rd Street Properties, LLC, Massachusetts Avenue Properties, LLC and Intern Housing, LLC.

Founded in 1973, The Heritage Foundation is an educational and research institute – a think tank – whose mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values and a strong national defense. The Foundation pursues this mission by performing timely, accurate research on key policy issues, and effectively marketing these findings to its primary audiences who are members of Congress, key congressional staff, policy makers in the Executive Branch, the nation's news media, the academic and policy communities, and its donors and the public at large. The Foundation's vision is to build an America where freedom, opportunity, prosperity and civil society flourish.

The Heritage Foundation is the sole member of three limited liability companies that are used for a variety of purposes.

3rd Street Properties, LLC is a limited liability company used to purchase and hold real estate property.

Massachusetts Avenue Properties, LLC is a Limited Liability Company used to purchase and hold real estate property.

Intern Housing LLC, is a limited liability company that operates an intern housing program.

A summary of the Foundation's significant accounting policies follows:

Basis of accounting: The accompanying consolidated financial statements are presented in accordance with the accrual basis of accounting, whereby unconditional support is recognized when received, revenue is recognized when earned, and expenses are recognized when incurred.

Principles of consolidation: All intercompany accounts and transactions between The Heritage Foundation, 3rd Street Properties, LLC, Massachusetts Avenue Properties, LLC and Intern Housing, LLC, have been eliminated in the consolidated financial statements.

Basis of presentation: The consolidated financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). As required by the Not-for-Profit Entities topics of the Codification, balance sheet and income statement, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Net assets represent resources available to support the Foundation's operations and restricted resources that become available for use in the year given by satisfying donor-imposed time or purpose restrictions. Net assets without donor restrictions include both Board-designated and undesignated funds. The Board of Trustees has approved the establishment of an operating reserve (designated fund) to provide working capital and financing stability for the Foundation in the future. Funds have also been designated by the Board for certain programs and capital acquisitions. Total designated funds at December 31, 2019 and 2018, totaled \$128,813,089 and \$114,731,352, respectively. The undesignated fund constitutes the Foundation's operating fund and net investment in property and equipment net of related liabilities.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Net assets with donor restrictions: The Foundation's net assets with donor restrictions are comprised of two types of restrictions: net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time and net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation, typically with earned investment income used for donor-restricted purposes. When a donor-imposed restriction expires due to accomplishing the stipulated purpose or through passage of time, the restricted net assets are reclassified to net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from restrictions.

Cash and cash equivalents: The Foundation considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. Cash equivalents held temporarily in the investment portfolio are excluded from cash and cash equivalents.

Financial risk: The Foundation maintains its cash in bank deposit accounts and money market accounts, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk on cash balances.

The Foundation invests in a professionally managed portfolio that contains various securities that are exposed to risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Contributions receivable and support and revenue: The Foundation recognizes support and revenue for unconditional contributions when received, including those contributions received in the form of unconditional promises to give or pledges. These promises to give are classified as contributions receivable on the consolidated statements of financial position. Conditional promises to give are not recognized as support and revenue until conditions have been materially met.

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is included in the change in value of pledges and irrevocable trusts on the consolidated statements of activities. An allowance for uncollectible pledges is recorded when management identifies amounts not expected to be collected. At December 31, 2019 and 2018, there was no allowance for uncollectible amounts recorded as all contribution receivables are expected to be collected.

Investments: Investments with readily determinable fair values are reported at fair value with gains and losses included in the consolidated statements of activities. Other investments in partnerships, hedge funds, trusts, LLCs and private equity (alternative investments) are reported at fair value based on a practical expedient, the net asset value per share or equivalent, determined by the fund or the investment manager at the measurement date. The estimated values, provided by the fund or the investment manager, are subject to an annual independent audit, and are reviewed by management for reasonableness. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

Estate gifts: The Foundation is the beneficiary under various wills and other agreements, the total realizable amounts of which are not presently determinable. The Foundation's share of such amounts is not recorded until the Foundation has an irrevocable right to the bequest and the proceeds are measurable.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Property and equipment: Property and equipment consists of land, buildings, building improvements, office furniture and equipment, which are stated at cost as of the date of acquisition or, for gifts-in-kind, the fair market value at the date of donation, less accumulated depreciation. Depreciation is recognized on a straight-line basis over estimated useful lives of 3 to 39 years for building and building improvements, and 3 to 10 years for office furniture and equipment. The Foundation capitalizes individual property and equipment purchases with a cost of \$5,000 or more.

Valuation of long-lived assets: Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. The Foundation had no impairment of long-lived assets during 2019 or 2018.

Cash surrender value of insurance: During 1999, the Foundation entered into a split-dollar insurance agreement with the Foundation's then president. The Foundation made premium payments to fund the life insurance policy. The then president assigned the cash surrender value and proceeds from the death benefit of the policy to the Foundation to the extent of the Foundation's cumulative premium payments. The life insurance policy was surrendered in 2019.

Derivative financial instruments: The Foundation has entered into two interest rate swap agreements to manage the interest rate exposure on the notes payable. The fair values of the interest rate swap agreements are the estimated amount that the bank or financial institution would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

Such interest rate swaps are accounted for under the Codification topic, Derivatives and Hedging. As a not-for-profit organization, the Foundation is not allowed to use cash flow hedging. Therefore, the interest rate swaps are recorded in the consolidated statements of financial position at fair value. The changes in the fair values are reflected in rental and other income in the consolidated statements of activities. The fair values of the interest rate swap liabilities at December 31, 2019 and 2018, were \$(949,373) and \$(531,503), respectively, and are included in long-term notes payable in the accompanying consolidated statements of financial position.

Split-interest agreements: Contributions received in the form of irrevocable split-interest agreements (charitable gift annuities and charitable trusts) are recorded as contribution support at the present value of amounts expected to transfer to the Foundation at the estimated date of death of the current beneficiaries, which is estimated using Internal Revenue Service mortality tables and discount rates commensurate with the risks involved, ranging from 1% to 7%. Any subsequent changes in the value of the split-interest obligations are recorded as change in value of split-interest obligations in the consolidated statements of activities.

During the life of the beneficiary or for the specified period of time, the Foundation pays the donor, or other specified parties, amounts as determined in the donor agreement. Upon fulfillment of the beneficiary payments or termination of the trust, the remaining assets are available to the Foundation for general purposes.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Income tax status: The Heritage Foundation is a nonprofit organization exempt from federal income taxes under Section 501(a), as an entity described in Section 501(c)(3) of the Internal Revenue Code. The Heritage Foundation has been classified by the Internal Revenue Service as a public charity and is not a private foundation. Contributions to The Heritage Foundation are deductible for federal income, estate and gift tax purposes. Income which is not related to exempt purposes is subject to tax. There was no significant net unrelated income tax during the years ended December 31, 2019 and 2018, respectively. 3rd Street Properties, LLC, Massachusetts Avenue Properties, LLC and Intern Housing, LLC are limited liability companies whose sole member is The Heritage Foundation. Consequently, 3rd Street Properties, LLC, Massachusetts Avenue Properties, LLC and Intern Housing, LLC are disregarded entities for federal and state income tax purposes.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the consolidated financial statements.

Allocation of joint costs: The Foundation incurred joint costs of \$11,607,017 and \$15,661,970 for the years ended December 31, 2019 and 2018, respectively. The Foundation allocated these joint costs among program and fundraising expenses as follows:

	2019	2018
Educational programs expense	\$ 10,140,445	\$ 13,960,396
Fundraising expense	1,466,572	1,701,574
	<u>\$ 11,607,017</u>	<u>\$ 15,661,970</u>

Advertising costs: Advertising costs are expensed when incurred. Total advertising expense was \$1,172,273 and \$612,005 for the years ended December 31, 2019 and 2018, respectively.

Use of estimates: The preparation of consolidated financial statements 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 consolidated financial statements, and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Functional allocation of expenses: The costs of providing various program and supporting activities have been summarized on a functional basis in the accompanying consolidated statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The allocation of overhead costs such as depreciation, interest, rent, and insurance are allocated based on personnel time.

Adopted accounting pronouncement: In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The Foundation adopted this ASU as it pertains to the Foundation as a recourse recipient through the modified prospective transition method during the year ended December 31, 2019. This ASU did not have a significant impact on the Foundation's consolidated financial statements.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Pending accounting pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. A lessee is required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The standard is effective on January 1, 2022, with early adoption permitted.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. When the Foundation is a resource provider, the ASU is applicable to contributions provided during the year ending December 31, 2020. The Foundation is currently evaluating the impact of this ASU as a resource provider on its consolidated financial statements.

Subsequent events: The Foundation evaluated subsequent events through June 19, 2020, which is the date the consolidated financial statements were available to be issued. See Notes 5, 10 and 12.

Note 2. Contributions Receivable

The following are unconditional promises to give at December 31, 2019 and 2018:

	2019	2018
Due in less than one year	\$ 5,474,168	\$ 11,134,133
Due in one to five years	3,657,000	3,839,125
Due in greater than five years	500,000	1,000,000
Total to be received	9,631,168	15,973,258
Less discounting for multi-year promises to give (rates of 1.11% - 3.13%)	(215,308)	(293,876)
	<u>\$ 9,415,860</u>	<u>\$ 15,679,382</u>

Note 3. Investments and Fair Value Measurements

The Foundation follows the Codification topic, Fair Value Measurement, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to the topic. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. At each reporting period, transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Foundation's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy.

Publicly traded securities are classified as Level 1 instruments because they comprise assets traded on public exchanges with readily determinable fair values and observable market based inputs.

As of December 31, 2019 and 2018, 52% and 89%, respectively, of capital committed to the private equity funds has been called.

Common trust funds (CTF) are unregistered bank investment products that pool fiduciary client assets and employ a multi-strategy objective. There were no unfunded commitments related to the CTF and the funds can be redeemed daily with no notice period.

Multi-strategy equity pooled separate accounts (PSA) are valued based on the fair value of the underlying assets in the PSA and the number of units in each PSA owned by the Foundation as a percentage of the total number of units in the PSA. A valuation agent is selected by Lincoln National Life Insurance Company for each PSA. The valuation agent calculates the net assets of the account on each open market day. There were no unfunded commitments related to the PSA and the funds can be redeemed daily with no notice period.

The guaranteed income fund is valued at a contract value reported by the insurance company. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. The guarantee contract is invested primarily in publicly traded and privately placed debt securities and mortgage loans. Funds can be withdrawn to be placed in separate funds upon request. Withdrawals may be deferred for up to six months if it is determined that investment conditions prevent an orderly sale of investments.

The deferred compensation plan obligations are based on the fair market value of the deferred compensation plan assets, which are valued using a practical expedient and are therefore, not subject to the fair value hierarchy.

The interest rate swaps connected to the Foundation's term loan financing are classified as Level 2 instruments because their values are a function of the difference between the interest rate on the Foundation's notes payable and the rates in the swap agreements; hence there are observable market based inputs.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

The tables below summarize the Foundation's financial assets and liabilities measured at fair value on a recurring basis, at December 31, 2019 and 2018.

Description	2019			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Publicly traded securities:				
Mutual funds:				
Equity mutual funds:				
Index funds	\$ 2,557,395	\$ 2,557,395	\$ -	\$ -
Established international	426,618	426,618	-	-
Multi-strategy	1,483,829	1,483,829	-	-
Total equity mutual funds	4,467,842	4,467,842	-	-
Fixed income mutual funds:				
Multi-strategy	212,183	212,183	-	-
Index funds	65,915	65,915	-	-
Total fixed income mutual funds	278,098	278,098	-	-
Total mutual funds	4,745,940	4,745,940	-	-
Total publicly traded securities	4,745,940	4,745,940	-	-
Alternative investments valued using a net asset per share or equivalent as a practical expedient (a)	191,299,105	-	-	-
Common trust funds valued using a net asset value per share or equivalent as a practical expedient (a)	10,991,011	-	-	-
Other assets:				
Multi-strategy equity PSAs valued using a practical expedient (a)	2,844,953	-	-	-
Guaranteed income fund valued using a practical expedient (a)	57,353	-	-	-
Total other assets valued using a practical expedient	2,902,306	-	-	-
Total assets at fair value	209,938,362	4,745,940	-	-
Cash equivalents	49,687,365	49,687,365	-	-
Total investments and deferred compensation assets	\$ 259,625,727	\$ 54,433,305	\$ -	\$ -
Deferred compensation obligations (a)	\$ 2,902,306	\$ -	\$ -	\$ -
Interest rate swap liability	949,373	-	949,373	-
Total liabilities	\$ 3,851,679	\$ -	\$ 949,373	\$ -

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 3. Investments and Fair Value Measurements (Continued)

Description	2018			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Publicly traded securities:				
Mutual funds:				
Equity mutual funds:				
Index funds	\$ 2,018,290	\$ 2,018,290	\$ -	\$ -
Established international	485,493	485,493	-	-
Multi-strategy	275,721	275,721	-	-
Total equity mutual funds	<u>2,779,504</u>	<u>2,779,504</u>	-	-
Fixed income mutual funds:				
Multi-strategy	1,433,025	1,433,025	-	-
Index funds	819,972	819,972	-	-
Total fixed income mutual funds	<u>2,252,997</u>	<u>2,252,997</u>	-	-
Total mutual funds	<u>5,032,501</u>	<u>5,032,501</u>	-	-
Total publicly traded securities	<u>5,032,501</u>	<u>5,032,501</u>	-	-
Alternative investments valued using a net asset per share or equivalent as a practical expedient (a)	<u>160,576,672</u>	-	-	-
Common trust funds valued using a net asset value per share or equivalent as a practical expedient (a)	<u>10,370,403</u>	-	-	-
Other assets:				
Multi-strategy equity PSAs valued using a practical expedient (a)	2,331,622	-	-	-
Guaranteed income fund valued using a practical expedient (a)	83,478	-	-	-
Total other assets valued using a practical expedient	<u>2,415,100</u>	-	-	-
Total assets at fair value	178,394,676	5,032,501	-	-
Cash equivalents	4,071,706	4,071,706	-	-
Total investments and deferred compensation assets	<u>\$ 182,466,382</u>	<u>\$ 9,104,207</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred compensation obligations (a)	\$ 2,415,100	\$ -	\$ -	\$ -
Interest rate swap liability	531,503	-	531,503	-
Total liabilities	<u>\$ 2,946,603</u>	<u>\$ -</u>	<u>\$ 531,503</u>	<u>\$ -</u>

(a) In accordance with ASU 2015-07, certain investments that were measured at a net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts of those investments presented in this table are intended to permit reconciliation of the fair value hierarchy to the line item presented in the consolidated statements of financial position.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 3. Investments and Fair Value of Financial Instruments (Continued)

The following table provides additional disclosures on the Foundation's alternative investment assets at December 31, 2019 and 2018:

	Fair Value at 2019	Fair Value at 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-Strategy ^(a)	\$ 129,186,828	\$ 106,111,333	N/A	Daily	1 day
Global Equity Opportunistic ^(b)	30,631,731	26,034,663	N/A	Quarterly	30 days
Fixed Income ^(c)	17,661,483	14,951,086	N/A	Daily	1 day
Private Equity ^(d)	9,226,680	9,282,531	\$ 15,591,630	N/A ^(e)	N/A ^(e)
Event-Driven ^(f)	4,592,383	4,197,059	N/A	Quarterly to Semi-annual	60 days
Total	<u>\$ 191,299,105</u>	<u>\$ 160,576,672</u>			

- (a) Multi-strategy managers employ a combination of any of the above mentioned strategies and may shift amongst those strategies at any time as conditions permit. Less than 1% of the investment balance in this category is in the process of being liquidated. As such, the redemption frequency or notice period shown relate to those multi-strategy investments not currently planned for liquidation.
- (b) Global Equity Opportunistic refers to investments in equity securities across worldwide markets, not restricted to specific regions or market capitalization.
- (c) Fixed Income managers use a multi-strategy approach and invest in a broad range of sectors and ratings. These managers seek to manage risk in an overall portfolio and seek returns for the investor.
- (d) Private Equity represents securities in operating companies that are not publicly traded on an exchange. This could be achieved through private equity investment funds, direct co-investments in individual portfolio companies, secondary private equity offerings or direct and indirect investments in privately and publicly issued debt securities and privately issued equity securities of companies that are currently experiencing financial and/or operational distress.
- (e) Private Equity partnerships permit redemption only at the fund/General Partner's discretion. As such, there is no redemption frequency or notice period officially outlined in the investment agreement.
- (f) Event-Driven strategies are investments in opportunities created by significant transaction events, such as spin-offs, mergers and acquisitions and reorganizations. These strategies include risk arbitrage, distressed situations investing, special situations and opportunistic investing.

The following summarizes investment income for the years ended December 31, 2019 and 2018:

	2019	2018
Net realized and unrealized gain (loss)	\$ 30,213,847	\$ (14,424,767)
Interest and dividends	1,455,699	1,440,958
Investment fees	(1,043,789)	(1,066,994)
	<u>\$ 30,625,757</u>	<u>\$ (14,050,803)</u>

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 4. Property and Equipment

Property and equipment and accumulated depreciation consist of the following at December 31, 2019 and 2018:

	2019	2018
Land, building and improvements	\$ 115,623,228	\$ 111,729,614
Construction in progress	5,375,170	4,567,561
Office furniture and equipment	9,574,136	9,855,775
	<u>130,572,534</u>	<u>126,152,950</u>
Less accumulated depreciation	(44,418,560)	(41,522,329)
Property and equipment, net	<u>\$ 86,153,974</u>	<u>\$ 84,630,621</u>

Depreciation expense for the years ended December 31, 2019 and 2018, totaled \$3,939,500 and \$4,222,884, respectively.

Note 5. Notes Payable

Notes payable as of December 31, 2019 and 2018, are as follows:

	2019	2018
Notes payable	\$ 21,350,203	\$ 21,725,330
Interest rate swap liability	362,304	261,418
Interest rate swap liability	587,069	270,085
	<u>22,299,576</u>	<u>22,256,833</u>
Less current portion	(393,261)	(375,130)
Notes payable, long-term	<u>\$ 21,906,315</u>	<u>\$ 21,881,703</u>

Interest expense for the years ended December 31, 2019 and 2018, was \$610,022 and \$769,305, respectively.

The Foundation had a note with a financial institution. The loan amount was \$5,186,560. At December 31, 2017, the outstanding liability totaled \$4,270,267. The outstanding liability balance was paid in full on June 12, 2018.

The Foundation has a second note with a financial institution. The loan amount was \$6,500,000. At December 31, 2019 and 2018, the outstanding liability totaled \$5,489,462 and \$5,666,760, respectively. The principal balance is payable in 119 consecutive monthly installments. The unpaid principal balance of the note, plus accrued and unpaid interest, is due on June 12, 2023. The note is unsecured and requires that the Foundation maintain a debt service coverage ratio (as defined by the lending institution) of at least 1 to 1 and unrestricted liquidity of at least \$65,000,000. The interest rate on this loan is London Interbank Offered Rate (LIBOR) plus 1.37%; however, a forward starting interest rate swap was initiated effective in 2015, with a term matching the note at an effective rate of 4.94% per annum. The value of the interest rate swap liability was \$362,304 and \$261,418 as of December 31, 2019 and 2018, respectively.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 5. Notes Payable (Continued)

The Foundation has a third note with a financial institution. The loan amount was \$7,000,000. At December 31, 2019 and 2018, the outstanding liability totaled \$5,860,741 and \$6,058,573, respectively. The principal balance is payable in 179 consecutive monthly installments. The unpaid principal balance of the note, plus accrued and unpaid interest, is due on June 12, 2028. The note is unsecured and requires that the Foundation maintain a debt service coverage ratio (as defined by the lending institution) of at least 1 to 1 and unrestricted liquidity of at least \$65,000,000. The interest rate on this loan is LIBOR plus 1.38%; however, an interest rate swap was initiated with term matching the note with an effective interest rate of 4.54%. The value of the interest rate swap liability was \$587,069 and \$270,085 as of December 31, 2019 and 2018, respectively.

The Foundation also has a closed ended note with a financial institution totaling \$30,000,000 used to fund certain construction projects. During 2018, the note was amended to allow advances to be taken on the loan for 60 months from the date of commencement (the draw period) at a rate of LIBOR plus 1.50%. On May 7, 2020, the Foundation's \$30,000,000 closed ended note was further amended to allow advances to be taken on the loan for 84 months from the date of commencement (the draw period) at a rate of LIBOR plus 1.50%. During the draw period, an unused fee of 12.5 basis points will be assessed. At the end of the draw period, principal and interest will be payable in 155 consecutive monthly installments on the outstanding principal balance based on a 20-year amortization beginning on January 1, 2023. Any unpaid principal and interest is due in full on the maturity date, which is November 30, 2035. The note is unsecured and requires that the Foundation maintain a debt service coverage ratio (as defined by the lending institution) of at least 1 to 1 and unrestricted liquidity of at least \$65,000,000. As of December 31, 2019 and 2018, the outstanding balance of the note was \$10,000,000 and \$10,000,000, respectively. On May 7, 2020, the Foundation entered into an interest rate swap agreement with an effective interest rate of 2.55% commencing on January 1, 2023 and terminating on November 30, 2035.

As of December 31, 2019, minimum future principal payments under these notes are as follows:

Years ending December 31:	
2020	\$ 393,261
2021	412,269
2022	432,198
2023	5,911,165
2024	1,011,338
Thereafter	13,189,972
	<u><u>\$ 21,350,203</u></u>

Note 6. Line of Credit

The Foundation has a revolving bank line of credit of \$10,000,000 from a financial institution. The revolving line of credit bears interest at LIBOR plus 115 basis points. It is unsecured and requires that the Foundation maintain a debt service coverage ratio of at least 1 to 1 and unrestricted liquidity of at least \$65,000,000. The line of credit matures on December 31, 2021, and there was no outstanding balance at December 31, 2019 and 2018.

Note 7. Employee Benefits

Discretionary contribution plan: The Foundation provides a non-contributory discretionary contribution plan to all employees with at least one year of service who have attained the age of 21 and who worked at least 1,000 hours during the year. Expenses for the plan were approximately \$1,835,000 and \$1,785,000 for the years ended December 31, 2019 and 2018, respectively. Employees vest at 25% per year of service beginning after two years and are fully vested after five years. The Foundation also provides employees the opportunity to defer current compensation under a 403(b) plan. The Foundation makes no contributions to this plan.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 7. Employee Benefits (Continued)

Deferred compensation plan: The Foundation provides certain employees the opportunity to defer current compensation under a 457(b) plan. Although the Foundation makes no contributions to these plans, the plan assets and related obligations to employees are includable on the Foundation's consolidated statements of financial position.

The total market value of all deferred compensation investments and the related deferred compensation obligations to employees was \$2,902,306 and \$2,415,100 at December 31, 2019 and 2018, respectively.

Note 8. Restricted Net Assets

The Foundation follows the Codification contents governing Reporting Endowment funds. The Codification addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006. The Foundation has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted endowment gifts as of the date of the gift absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions that are permanent in nature: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds remain in the restricted endowment until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The purposes of the Foundation and donor-restricted endowment fund.
- The duration and preservation of the fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other available financial resources.
- Investment policies.

The Foundation has adopted investment and spending policies for the donor restricted endowment that attempt to provide a predictable stream of funding to programs while maintaining purchasing power. The annual investment withdrawal is calculated up to 5% of the three-year quarterly average of the investment market values at September 30. All earnings from these funds are reflected as donor restricted net assets until appropriated for program expenditures.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 8. Restricted Net Assets (Continued)

Net assets with donor restrictions at December 31, 2019 and 2018, consist of the following:

	2019	2018
Temporary in nature, excluding endowment funds:		
Contributions restricted by purpose	\$ 2,639,498	\$ 2,911,370
Contributions restricted by passage of time	14,427,177	15,125,985
Total temporary in nature, excluding endowment funds	17,066,675	18,037,355
Endowment Funds:		
William E. Simon Fellow Endowment	1,000,000	1,000,000
Miller Family Fdn. Intern Endowment	1,000,000	1,000,000
William Grewcock Intern Endowment	1,000,000	1,000,000
John Bruning Intern Endowment	200,000	200,000
Westerman Intern Endowment	100,000	100,000
John R. & Margrite Davis Intern Endowment	100,000	100,000
John Von Kannon Philanthropy Endowment	1,148,960	1,148,960
Haskell Robinson Endowment	500,000	400,000
Marjorie W. Herrick Intern Endowment	100,000	100,000
Edward R. Farber Intern Endowment	896,500	896,500
Joe N. Rumble Endowment	911,251	911,251
Kuchta Intern Endowment	200,000	200,000
Eddy de Broekert Intern Endowment	250,000	250,000
Grover M. Hermann Endowment	5,000,000	5,000,000
Mayer Intern Endowment	201,318	50,175
Linda Boyce Haller Internship Endowment	200,000	200,000
Sims Intern Endowment	200,000	100,000
Alison and Dorothy Rouse Endowment	27,684,538	-
Accumulated gains on endowment	3,716,330	2,485,244
Term endowment	25,855,000	25,855,000
Total endowment funds	70,263,897	40,997,130
Total net assets with donor restrictions	\$ 87,330,572	\$ 59,034,485

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 8. Restricted Net Assets (Continued)

The Foundation's endowments consist entirely of donor restricted funds and the following is the endowment fund activity for the years ended December 31, 2019 and 2018:

	December 31, 2019	
	Net Assets With Donor Restrictions	Total
Beginning of year	\$ 40,997,130	\$ 40,997,130
Investment return, net	3,507,366	3,507,366
Amounts appropriated for expenditure	(2,276,280)	(2,276,280)
Contributions	28,035,681	28,035,681
End of year	<u>\$ 70,263,897</u>	<u>\$ 70,263,897</u>

	December 31, 2018	
	Net Assets With Donor Restrictions	Total
Beginning of year	\$ 36,653,496	\$ 36,653,496
Investment return, net	(1,089,041)	(1,089,041)
Amounts appropriated for expenditure	(17,500)	(17,500)
Contributions	5,450,175	5,450,175
End of year	<u>\$ 40,997,130</u>	<u>\$ 40,997,130</u>

Note 9. Commitments and Contingencies

Leases: The Foundation leases equipment and office space under noncancelable operating lease agreements. Future minimum lease payments under noncancelable operating leases with initial or remaining terms in excess of one year at December 31, 2019, are as follows:

Years ending December 31:	
2020	\$ 240,321
2021	205,014
2022	154,096
2023	158,719
2024	163,481
Thereafter	341,822
	<u>\$ 1,263,453</u>

Expense incurred under these leases for the years ended December 31, 2019 and 2018, totaled \$247,044 and \$242,584, respectively.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 9. Commitments and Contingencies (Continued)

Self-insured health plan: The Foundation has a self-insured health insurance plan for its employees and their qualifying dependents. The Foundation holds stop-loss insurance coverage, which limits the Foundation's liability to an aggregate maximum claim liability per policy year of approximately \$4,400,000. At December 31, 2019 and 2018, the Foundation had medical claims accruals of approximately \$379,000 and \$423,000, respectively, which are included in accounts payable and accrued expenses on the consolidated statements of financial position.

Note 10. Related Party Transactions

The Foundation leases office space and provides administrative services to a related entity whose Board of Directors is independent of the Foundation's Board of Trustees. The entity's Board of Directors consists of three Directors that are also Trustees of the Foundation. The Foundation and the entity have entered into a lease for office space that ends March 31, 2020, and included \$41,148 of minimum lease payments through March 31, 2020. Subsequent to March 31, 2020, the lease for office space went month to month.

Lease revenue from the related entity totaled \$164,595 and \$163,180 for 2019 and 2018, respectively.

Contracts for administrative services are on an annual basis and begin on January 1, each year. Administrative service contract income totaled \$1,162,856 and \$1,226,649 in 2019 and 2018, respectively. Also, the Foundation contracted with the related entity for services to be provided to the Foundation. Total expenses incurred by the Foundation related to this contract totaled \$517,500 during the years ended December 31, 2019 and 2018.

The Foundation received approximately \$6,316,600 and \$7,861,500 of support in the form of contributions from members of the Board of Trustees and organizations associated with members of the Board of Trustees during the years ended December 31, 2019 and 2018, respectively, in the ordinary course of business.

The Heritage Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 11. Liquidity and Availability

The following represents the Foundation's financial assets at December 31, 2019 and 2018, are as follows:

	2019	2018
Cash and cash equivalents	\$ 9,722,225	\$ 9,856,972
Contributions receivable	9,415,860	15,679,382
Investments	256,723,421	180,051,282
Total available liquidity	<u>275,861,506</u>	<u>205,587,636</u>
Less:		
Board designated net assets*	128,813,089	114,731,352
Net assets with donor restrictions	87,330,572	59,034,485
	<u>216,143,661</u>	<u>173,765,837</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 59,717,845</u>	<u>\$ 31,821,799</u>

*The Board designated net assets can be used to meet general expenditures at the discretion of the Board of Trustees

The Foundation has a \$10,000,000 line of credit that can provide additional liquidity.

The Foundation maintains a policy of structuring its financial assets to be available as its general operating expenses come due.

Note 12. Subsequent Event

It is unknown how long the adverse conditions associated with COVID-19 will last and what the complete financial effect will be to the Foundation. Management is continually monitoring the potential impact of the pandemic on the Foundation. Management will review and adjust planned activities should it be determined the outbreak will significantly impact the financial position and activities of the Foundation.